# THE FARM MORTGAGE HANDBOOK

By

KINGMAN·NOTT·ROBINS

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# THE
# FARM MORTGAGE HANDBOOK

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*A Book of Facts Regarding the Methods by Which the Farmers of the United States and Canada Are Financed. Especially Intended for Investors Seeking Information Regarding Investments in Farm Mortgages*

BY

KINGMAN NOTT ROBINS

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# FOREWORD

Mr. Robins has done a very useful piece of work in describing the best practices of those institutions which are already functioning in the field of rural credit. To serve as a channel through which the surplus capital of those who have it may get into the hands of those who need it is the function of every credit institution. Mr. Robins shows how a number of institutions are serving to transmit surplus capital to the farmers who need it. They are rural credit institutions in the most fundamental sense, even though they are run entirely as private agencies with very little government regulation or supervision.

Private capital will go where it is most needed provided credit conditions are equally good in all fields of investment. Where they are not equally good there are obstacles in the way of the free flow of capital, and capital will not distribute itself in proportion to needs. Anything which the government can do to remove these obstacles will therefore help in the process of dis-

tributing capital economically. It would be a mistake to try, by other means, to force capital into fields where it would not naturally go. This would result in diverting it from more productive to less productive fields. If one industry is productive enough to pay 6 per cent. for capital while another cannot pay more than 5 per cent. the former ought to have the capital rather than the latter. To attempt to divert it into the latter would be like trying to divert irrigation water from highly productive land where it would yield large returns onto poor land where it would yield small returns.

The opportunities for government activity in the field of rural credit are of two kinds. In the first place there is the opportunity for enabling acts of various kinds which will permit the organization of institutions which can meet the credit needs of farmers as those of merchants and manufacturers are now met. In the second place, there is the need for legislation which will standardize and stabilize credit conditions and methods. In their need for standardization, rural credit institutions do not differ from others. The National Bank Act marked a new era in the banking history of this country because it succeeded in standardizing the banking business.

Before that act was passed the country was full of wild-cat banks except in those States which had themselves standardized the business. Since the passage of that act wild-cat banking has been almost non-existent. The large and growing interest in the subject of rural credit is likely, unless there is government regulation, to produce an era of wild-cat banking in the field of rural credit. As in the field of commercial banking, so in the field of rural credit, the function of the government is not to go into business of lending money, but rather to standardize the methods of those who are in the business. Standardizing a business consists merely in holding all competitors up to the best methods of the best competitors. What these methods are, Mr. Robins has set forth in this book. That is one reason why it is so valuable.

T. N. Carver.

# INTRODUCTION

It is obvious to all who are interested in rural finance—"rural credits"—from whatever viewpoint, that although there have been ample discussion and abundant data collected on rural credits and rural credit systems abroad, there has been no comprehensive study of rural credits or rural credit facilities as they exist in this country.

Some writers and speakers on the subject seem to be ignorant of the fact that there are any rural credit facilities at present existing in the United States and Canada. That there are, however, is of course evident from the fact that there are estimated to be $3,500,000,000 of outstanding investments in long-term land credits at the present time in the United States, and proportionately as much in Canada, and that the insurance companies of the United States, the largest group of investors in the world, holding $700,000,000, approximately, of farm mortgages, still have a smaller investment in such securities than either the banks of the United States as

a group, or the individual investors of the United States as a group.

In reality the facilities for long-term rural credits, about which we have heard the most in recent years, are extensive and important, and a knowledge of them is certainly essential to an intelligent understanding of rural credits in this country. It is this phase of the subject that is treated in this book.

Lack of understanding of the present facilities, however, is not confined to students of rural credits from the standpoint of rural economics and sociology. It is equally prevalent among large groups of investing institutions and individuals, who might well acquaint themselves with the methods now practised for putting the investor, wherever located, in touch with borrowers on land security, and furnishing to the investor this fundamental type of security under such conditions that he cannot have a safer investment.

It is principally for investors who would thoroughly familiarize themselves with this form of investment, of such long standing and importance, but so little understood, especially in the Eastern United States, that this Handbook has been prepared at the instance of the publishers.

Our diffidence in undertaking a work of pioneer character, covering such a large and complex subject, has been overcome only by the realization that some one must break the ground, and the hope that many better qualified than the writer to deal with the subject would follow this initial attempt with more worthy treatment of the subject.

We are particularly indebted for suggestions and the careful examination of the Mss. to Messrs. James R. Merriam, Financial Editor of the *World's Work;* Professor T. N. Carver of Harvard University, President of the American Economic Association; Mr. F. W. Thompson, Manager of the Farm Loan Department of the Merchants' Loan and Trust Company, Chicago; Mr. Joseph E. Maxwell, President of the Maxwell Investment Company, Kansas City, Missouri; Mr. O. M. Corwin, Vice-President of the Wells & Dickey Company, Minneapolis; and Mr. J. T. Holleman, President, the Southern Mortgage Company, Atlanta.

KINGMAN NOTT ROBINS.

*Rochester, New York.*

# THE FARM MORTGAGE HANDBOOK

# CHAPTER I

## RURAL CREDITS

"Rural Credits" became a "problem" in the popular sense about 1910, and since that time a steadily increasing amount of material has been accumulating bearing on the subject. This material, however, taken as a whole, seems to have failed to promote a clear understanding of the difference between conditions in this country and those in European countries.

As treatment of the problem has progressed, two distinct viewpoints have revealed themselves in the discussion as well as the action that has resulted.

*First:* Of rural credits as an economic and social problem.

*Second:* Of rural credits as a political issue.

Much of the confusion of thought and misinformation on the subject that are general throughout the country arise from failure to discriminate between the "problem" as it actually is and the "problem" as it presents itself

to politicians as a hobby on which to ride into office.

The confusion caused by the mixed motives of many of those who have dealt with the question has been aggravated by the utterances of theorists who have evolved strange conclusions from insufficient or erroneous data.

As a genuine economic and social "problem" rural credits is entitled to respect and attention as affecting the largest and most important industry and group of population in the country, and from this standpoint we propose very briefly to define "rural credits" and analyze the "problem."

"Rural credits" may be defined as "rural finance"—the financing of the farmer—by loans of both long and short term, on the security of land as collateral, or on the security of personal credit and chattel or crop security only. Long-term loans are granted to farmers, as to other business men, only on collateral security of *permanent* value, usually their farms. Short-term loans are granted to farmers, as to other business men, on their personal notes, unsecured or secured by lien on chattels or on farm products.

These two classes of loans are so distinct in

the conditions governing them that for purposes of discussion they must be clearly differentiated.

At the same time, effort to solve either of the phases of the problem might well take the following course:

(*a*) Determination of the needs for credit.

(*b*) Means at present at hand to supply the needs.

(*c*) Deficiencies in these means.

(*d*) Causes of these deficiencies.

(*e*) Determination of ways and means to make up these deficiencies.

## SHORT-TERM CREDIT

Applying this method of analysis to what we term "short-term credits," we find that the farmer, like any business man, has seasonal or periodic financial requirements—to put in or to harvest his crop, to buy and feed stock for market, to carry farm products pending sale, etc., etc. The periods for which he requires these funds are seldom longer than eighteen months or, at the longest, two years, and the need is likely to be recurrent. The function of this sort of loan is similar to that of the recurrent or seasonal loan to the merchant or manufacturer, although the latter does not require use of

the money for so long a period as a rule, and it is granted on the basis of similar considerations in the eyes of the lender, viz., the financial trustworthiness of the borrower, his personal reputation and resources, and the likelihood that his use of the money will be profitable to himself and therefore a safe use of the loan.

Without going into details, it may safely be stated that, ideally, money should be available to meet all demands for loans of this character that satisfy reasonable banking requirements, and at a rate of interest reasonably commensurate with the risks and costs of doing the business.

For obvious reasons this kind of loaning is almost wholly in the hands of the banks, except where the local storekeeper makes advances to customers or carries them until harvest. The business requires constant oversight, and an intimate knowledge of local conditions, and because confined to loans of short term and of a great variety as to security and amount, does not invite outside capital, either individually or corporation controlled, except as it may be invested in the stock of the local banks or in time certificates of deposit—outside money attracted to local banks because of good interest

rates offered. In the Northwest considerable sums in the aggregate are so deposited in country banks which can get high rates on chattel loans.

The supply of money available is therefore chiefly of local origin, and will naturally tend to be deficient in districts where there has not been time to accumulate a local savings or deposit fund in the hands of the population. The same conditions that make for a deficiency in local funds, moreover, make for necessarily high costs and greater risks in doing business—the farmer has not yet proved himself a safe personal risk, nor has he accumulated resources. Good loans are scarce, so that the overhead expense is high in proportion to the business done. The agricultural possibilities as well as the agricultural risks are not yet proved or tested. Banking under such conditions is a pioneer business, and the pioneer banker is a pioneer banker instead of a banker in a more favorable field because he is willing to take greater risks, put up with greater hardships, and do a smaller proportionate business in return for high rates.

It is entirely reasonable, certainly, that this should be the case. It is not to be expected that the pioneer banker will quote his pioneer

borrower as favorable terms as the farmer in an established and resourceful community can get.

The tendency of every thrifty community in a productive agricultural region is to accumulate local savings funds, which in turn seek outlet in the locality in which they originate, and the result is increasingly large supplies of money as the banking risks of the community become better and more numerous. The ultimate result of this process is such a condition as obtains in the State of Iowa, for example, where farmers known to be entitled to credit get it on at least as good terms as the most solvent business men of Chicago or New York, and where more than half the stock of the country banks is owned by the farmers of the State.

It will be evident that such deficiencies as there are in the means of financing the short-term needs of the farmer are not so much in the *machinery*—the laws governing the operation of the banks, National and State, are flexible and appropriate—as in the *material* available for the machinery. To produce the ideal condition with respect to material, the *farmers* of the community must be intelligent, businesslike, thrifty, and personally reliable in every way—the *banker* must be a man of integrity, business fore-

sight, and discrimination, with confidence, but not rash, with breadth of sympathy and interests, but not a visionary—in short, a real banker and partner of his patrons and not a mere money lender. The *country* itself must be reasonably certain in production—not a country of one-crop farming and speculative farming habits.

All these factors are as difficult to find in combination as are ideal factors in any situation depending on human nature. The remedy for the defects lies in the direction of better men and better farming rather than in changes in the machinery, for the latter cannot at its best supply deficiencies in the farmer. But better men and better farming can bring about conditions under the present machinery just as favorable as they deserve. In this connection the operation of the Federal Reserve Banks when properly utilized, and the increasing interest of city bankers in country banking, are helpful factors.

Careful examination of the chief complaints against the situation at present existing will reveal inherent defects in practically every case that account for the so-called deficiency of credit. Improvidence, ignorance, inertia, carelessness—these and other defects of moral hazard entail an inevitable penalty of scant capital

at high rates, unless charity and gratuity be substituted for the businesslike "credit" we are discussing. The same is true of the risks of unintelligent farming or farming in a country of uncertain agricultural productivity. Too often the clamor is for charity instead of credit—for a donation instead of a loan. And there cannot be either charity or donation to an individual or to a class of the population without depriving some other individual or class of the equivalent, without consideration.

There are undoubtedly large numbers of thoughtful persons who believe that for the larger good of the country—as a measure of social economics—steps should be taken in this country to give to certain classes of the population financial means they cannot on a business basis command; for example, the financing of tenants without means who wish to become land owners, and of city dwellers who would do the same.

It is not for us to say how or whether such financing should be attempted—we would merely point out that such financing is not properly a phase of *rural credit*, but rather a measure of *rural economics* or philanthropy, to be considered as such.

The difficulties in the way of any comprehensive workable scheme for such financing are so great that no definite plan has as yet been proposed by any large group or political element.

### LONG-TERM CREDIT

Applying to this phase of the "problem" the same methods of analysis as to short-term credit, we may define the ideal situation as one where every farmer with title to agricultural land—for that is for practical purposes the only collateral in the hands of the farmer which will serve as security for a long-term loan—may obtain a loan up to, say, $33\frac{1}{3}$ per cent., 40 per cent., or 50 per cent., of its appraised value on terms as favorable to him as the intrinsic security deserves when compared with other security offered in competition with it.

The need is therefore made up of two major factors—supply of money, and terms for its use.

The difficulty in determining both the sufficiency of the supply and the equity of the terms lies in the purely relative character of both factors. The question of supply is relative to the question of the economic legitimacy of the demand. To illustrate, a community of farmers

may ask for twice as much money as can be supplied them, and yet the available supply may be sufficient for the really legitimate needs, and a larger supply might encourage speculative purchases of land and equipment, reckless use of credit, and the generally demoralized state of things that always exists in a community where money has been too easily borrowed.

The question of terms is similarly relative to the economic legitimacy of the demand. Money too easily borrowed on too easy terms may well work more hardship on the individual borrower and on the community at large than money too scarce in amount and obtainable only on what seem like extortionate terms.

Again, the "ideal" situation must be further defined as existing:

1. When the supply of money is equal to all requirements by farmers who have the security and can demonstrate that borrowing is good business for them, and therefore a productive employment for money. For the general good of the community the more important phase of this qualification is the necessity that the farmer make productive use of the money borrowed, that he make more out of it than he requires to pay interest and repay the principal. A viola-

tion of this qualification is an economic crime—a waste of capital—and the larger the amounts of capital supplied in violation of this requirement, the worse for all concerned. To meet this requirement as fully as possible, the farmer must be not only a good farmer, farming agriculturally productive land, but also a good business man. In rural finance as in urban finance, the borrower is more and more being required to show that he borrows for a legitimate purpose, and no matter what security he offers, the loan is refused if shown to be for an unbusinesslike purpose.

To govern the proper distribution of capital on such a basis so far as possible the *lender* must be a real banker, not a mere money lender, using business judgment, taking a sympathetic and coöperative interest in the affairs of his patrons, and strong enough to say "no" when the collateral security tempts a violation of the principle, and bold enough to say "yes" when the collateral security may be less inviting, but when the moral and economic hazard deserve assistance. The ideal banker is, if anything, rarer than the ideal farmer, but *laws* cannot do much to increase his breed.

2. The ideal situation in the matter of *terms* and *rates* would provide funds for the length of

time best suited to the borrower's purposes, and at a rate of interest and charges proportionate to the security offered as compared with security from other quarters, taking into account the expense of doing business. Rates less favorable than that must obviously be due to lack of proper mobilization of credit—to use the current phrase—a defect somewhere in the connection between borrower and lender. Rates more favorable than that will hardly be available except there be somewhere an element of special privilege—a situation repulsive to fair-minded persons and to sound economics.

Before a conclusion can safely be reached as to the fairness of the rate, the factors involved must be clearly understood. They include the following:

(*a*) The actual security—the certainty of repayment.

(*b*) The form in which the security is presented.

(*c*) The volume of security offered.

(*d*) The expense of dealing in the security, both for lender and borrower.

(*e*) The familiarity of the lender with the security, its form and qualities.

We shall see in succeeding chapters that the

first of these factors in respect to rural finance depends to a very large extent on the judgment and methods of those agencies engaged in mobilizing such security. Factors *b* and *e* are also largely dependent on these same agencies. The dependence of these three factors on the intermediaries employed emphasizes their indispensable importance, and the expenses they are under in making these factors effective should be considered, not as unnecessarily and unjustly grafted on the business, but as an essential and legitimate part of the rate established.

The element of cost in doing any business is hardly ever fully appreciated by those not engaged in it, and too often not by them. Lack of knowledge of their costs has bankrupted too many business men not to warn every one that a careful analysis of these costs is essential to any fair judgment as to whether they are excessive or not. Without going into details, it may safely be assumed that the oldest, largest, and most experienced agencies engaged in rural finance have the best knowledge of what these costs are, and in doing a keenly competitive business, as they are, that they will charge for that service not more than it is worth.

Factor *c* is a factor that is often overlooked.

It often costs as much to mobilize a $1,000 credit as a $100,000 credit, and the borrower of $1,000 must expect that the high proportionate cost of dealing in small units will affect the rate.

We shall show also in succeeding chapters some of the manifold handicaps on the mobilization of rural credit which tend to increase the cost of doing business and hence the rate. Widely diverse conditions of agriculture, and the even more widely diverse character of the farmers as credit risks, the important elements of distance and high costs of doing business in this country as compared with foreign countries, the innumerable legal differences and handicaps, provincial prejudices—these are only a few of the important reasons why the cost of conducting the business of rural finance in this country is higher than in foreign countries. The cost in foreign countries is no indication of what it should or may be in the United States.

We shall also see the conditions that have influenced the development of this business in this country along individualistic and competitive lines, rather than through large corporate machinery. It is a curious anomaly that the political school of thought that most distrusts the efficiency and social advantage of large corporate

enterprise at the present time most ardently advocates eliminating the great number of existing keenly competitive, relatively small agencies engaged in rural finance, and the substitution therefor of complicated corporate machinery so restricted legally as to practically eliminate competition. The contradiction in principle thus betrayed is not modified by the fact that to assure the elimination of competition for the proposed machinery, it is proposed to grant the latter a degree of special privilege by Government fiat unprecedented in American finance.

Reduction of rates and improvement of terms for any class of borrowers by removal of unnecessary obstacles and by increased efficiency and competitive bidding is one thing—the attainment of these ends by subsidy and special privilege, whether direct or indirect, is another. The former is the proper wish of every true citizen—the latter should be the abhorrence of every citizen, of none more than the farmer, who is thereby placed in the unsought position of a sycophant and a public charge.

The basis of rate having been analyzed, we turn to the matter of terms.

It has been quite generally assumed by writers on the subject of rural credits that the terms of

American long-term credits, as to the length of the loan and the method of repayment, are a hardship on the borrower, distasteful to him, and imposed upon him by the lender. It has been pointed out that these credits are for an average term of five years and the necessary costs of renewal as well as the fear of having the credit recalled at the end of the term are pictured as intolerable burdens on the farmer, in view of the fact that his earnings are so small that he cannot possibly save enough to repay the loan within that period, unless he does so at the cost of all the comforts and most of the necessities. On arriving at this conclusion it seems to be entirely overlooked that long-term credits are almost invariably renewed *unless* the borrower himself has proved unworthy of the credit, when it is and ought to be withdrawn for the good of all concerned, and it is also overlooked that the costs of renewal are simply part of the rate, the factors in which we have above analyzed. A change in the term of the credit from five to, say, thirty years would not actually eliminate this factor in the rate. It would cause it to be transferred to some other factor. The cost of doing business being so much, it must be covered—whether by commissions,

fees, or higher interest rates makes little difference to the borrower.

It has been generally assumed, too, that the farmer should be compelled or allowed to reduce his debt by regular payments on account of principal, annual or semi-annual, and the amortized loan for long terms, thirty and more years, has been advocated.

If the farmer's long-term credit is a burden on him which he will wish to dispose of as soon and as surely as possible, the amortized loan has much in its favor—it puts within the means of almost any borrower the power of eventually discharging the debt. But, if the farmer seeks credit as do other business men, because he can make the borrowed money earn him more than he pays in interest, why should he want to steadily repay his loan in driblets, thus each year having a little less borrowed capital with which to work, but at the same time leaving his farm tied up with a long-term mortgage, which until wholly paid off will prevent him from borrowing anything additional on his farm as security?

Much of the advocacy of the amortized loan for American farmers seems to be based on a wrong assumption as to what the American

farmer really wants. He is not a serf or a European peasant of meagre earning power, regarding his farm more as a home to be won by a generation of labor than as a plant out of which to make revenue. The American farmer is primarily and typically, in his best estate, a business man: he uses credit as such; he buys and sells farm land as such; and the same reasons that actuate the borrower on city properties to seek to finance as large a part as possible of his holdings with borrowed money so as to make a larger return on his equities influence the American farmer. In cases where he wants to pay off his loan in instalments, he has that privilege at present, in nearly all cases. The theory of amortization of capital is correct when the farmer has invested all the capital for improvements, stocks, etc., that he needs. But experience teaches that more often than not, at renewal periods, he increases his loan to fund debts incurred during previous years for betterments of stock and equipment. No business man wants to amortize his borrowed capital until his business no longer needs it.

That this is not a theoretical presentation of the case is indicated by the fact that at least two prominent concerns have attempted without

success to introduce the amortized loan among farmers in this country, and also by the fact that the most prosperous agricultural states carry the largest credits in proportion to their farm values. If the most prosperous farmers of the country did not feel that it was an advantage financially for them to carry as large a proportion of their property as possible with borrowed money, this condition would hardly exist.

At the Ninth Annual Meeting of the Life Insurance Presidents in New York, December, 1915, the president of a company that has been making farm loans for forty years is quoted as saying:

"Any loaning, as I take it, done in the older countries, like France, and any loaning on the amortization basis, is to people who have owned their farms for a long time, and who intend to own the actual piece of land which they are now living on for the rest of their lives. They want such a loan, and they are willing to pay it off gradually for the sake of getting a low rate of interest; and they put the money into improvements, or pay back debt with it. The condition in American farming up to this time has not been such as to justify any man in making that kind of a loan; that is, it has not been such

as to justify any great class of men in making that kind of a loan.

"Our farmers, as a general proposition, have not got any great attraction for the old home place, and they do not hold on to it through thick and thin. If you come along and offer them $10 more an acre than it is worth, they will sell it to you and go and buy another piece for $5 less than it is worth, and make what they consider $15 an acre on the transaction.

"As these transactions have gone along, and the price of land has worked up, instead of wanting a loan that could be amortized, they want a loan that is payable at any interest date, instead of diminished. There has never been a time in the last fifteen or eighteen years when the average amount per acre that is loaned by the various companies, and by the various individuals, has not from year to year increased in amount.

"Any scheme of amortization under this condition of society—this semi-speculative condition of land values—has no actual demand from the farmer behind it. I think all of the life insurance companies make loans which are amortizable at the pleasure of the borrower; we do not insist upon the borrower paying off so much a year. If we did, we could not get the

loans. He would go to somebody else who did not put any onerous conditions on these loans, and say: 'I want this money. Now, John Jones says I have got to pay one-twentieth of the principal next year and one-twentieth of the principal the year after, but I am not going to do anything of that sort. I want the money, and I want it straight. I want to be able to pay it all or none.'

"The result is, that if he has a good crop and does not know what to do with his money, he pays back a slice of it at the end of the year. If he has not got a good crop, or if he wants to buy some more land, he goes and puts that money that he has got out of his crop into some more land, and borrows some more money. So that the call for amortizable loans at the present time, under our conditions, seems to me to be an artificial one, manufactured somewhere else than in the mind of the farmer. It is very applicable to foreign conditions, but it does not seem to me that it is applicable to our own conditions here.

"In a recent address before the Texas Bankers' Association at Waco, Mr. George Woodruff, of Joliet, Ill., told of the operation of the Woodruff Trust Company of that place

which is organized on the lines of the Credit Foncier of France. He stated "that in this trial of the French system under Middle Western conditions, several real difficulties have been encountered, namely: (1) farmers are slow to understand the amortization principle and its application; (2) investors do not like to handle debenture bonds secured by mortgages which are generally classed with city real estate bonds rather than with farm mortgages; (3) the necessarily long maturity of some of these debenture bonds renders them undesirable; (4) debenture bonds are rarely bought in as large numbers (by individual buyers) as mortgage notes, which are looked upon, although erroneously, as separate and distinct commodities; (5) the difficulty and expense of establishing such a system renders the business but slightly profitable to the bank of average efficiency; (6) in short, the system ignores present mortgage conditions and calls for a complete and radical change in financial matters which would be very difficult of attainment, if, indeed, wholly desirable."

We believe it may safely be concluded, that in respect to the terms on which long-term rural credits are now granted, they are satisfactory and suited, in large degree, at least, to the American

farmer's wants and requirements. This is being further tested by experiments by large lenders with amortized and instalment loans running for longer terms than five years.

Many will object, however, that the difficulty in the terms is not so much with the period or manner of repayment of the loan as with the supply of credit and the rate of interest.

As for the supply, having in mind the fact that adequacy is purely relative, it is illuminating to find that United States life insurance companies, the largest lenders on farm land security in the country, have loaned 1.86 per cent. of the total farm land values of the United States, and 1.26 per cent. of the total city and village values. So far as these great sources of capital are concerned it is evident that they have granted the borrowers on farms a larger relative supply of capital than borrowers on other real estate.

In respect to interest rates, there is more popular misapprehension than in respect to any other phase of "rural credits." Again we must recall that the question of whether a given interest rate is high or low, unreasonable or reasonable, is purely relative.

Mr. Robert Lynn Cox, General Counsel and Manager of the Association of Life Insurance

Presidents, observes (Proceedings, Ninth Annual Meeting, December 9, 1915):

"Other things being equal, the States in which up-to-date enterprising farming leads to good buildings, well-stocked farms, good crops (farming with profit), are those which attract capital and secure low interest rates. If 'other things' are not equal, if there are antiquated laws as to titles, transfers, and foreclosures, or statutes intended to circumvent the operation of economic law, the flow of capital may easily be turned aside and interest rates thereby increased." He adds: "Life insurance companies are now the most important of all agencies making farm loans in this country. They have loaned over $654,000,000 on farm mortgages at an average interest rate of 5.55 per cent." "This is indeed surprising," as President Wyman, of the Berkshire Life Insurance Company (a company making no farm loans), remarks, "when we learn that farm loans average with companies chiefly engaged in making such loans but $2,500 each, while the city and village loans of companies chiefly engaged in making such loans average $75,000 each, and yield an average interest return of 5.13 per cent."

To meet the possible objection that the figures

reported by this one element in the supply of rural credit, even though one of the principal ones, should not be accepted as an indication of general conditions, we would refer to the most comprehensive investigation of the sources of rural credit on record, that of Mr. George K. Holmes, Statistician of the United States Department of Agriculture, and published by the International Institute of Agriculture, Rome, Italy, in 1913. The investigation was initiated by a *questionnaire* sent to 9,000 persons in all parts of the agricultural United States, of three classes, bankers, farmers, and business men, so as to offset class bias, although Mr. Holmes remarks: "It was hardly discoverable that class bias entered considerably into the answers given."

The chief results of the inquiry may be summarized as follows:

1. Seventy-seven per cent. of farm owners and 46 per cent. of tenants were reported as able to give "good security or endorsed notes for a loan." As a basis for further conclusions, therefore, the others were omitted from the calculations.

2. Farm owners were reported as being able to get sufficient long-term credit by 47 per cent. of the correspondents. The remaining corre-

spondents reported 40 per cent. of farm owners unable to get such long-term credit. This deficiency was reported greatest in the South Atlantic and South Central States, and least in the North Central States.

3. In answer to the question as to whether additional credit would be used by the borrowers conservatively and profitably, 26 per cent. of the correspondents answered that it *would not* be so used, and 32 per cent. that it *would*.

4. As to the sources of credit, it appeared that local banks supply more than half, general stores one-quarter, both together more than three-quarters. Neighbors supply one-seventh. The supply from outside sources is placed at only one-seventh of the total, and in 51 per cent. of the communities questioned there was reported to be no outside supply. Where the outside supply is greatest in proportion to the total, the interest rates are lowest, and the total supply least deficient, namely, in the North Central States.

5. The determination of interest rates is particularly illuminating, since it not only compares rates in various sections of the country, but also as between rural and urban borrowings.

In the case of purchase-money loans, the range of rate on farm loans was practically the same as on urban loans, 6 per cent. to 8 per cent. Ten per cent. of the correspondents reported the farm rate higher, 33 per cent. reported the farm rate lower, and 57 per cent. reported it the same as the city rate. The only section reporting higher rates for farm properties was the East South Central. With respect to long-term loans other than for purchase-money purposes, 8 per cent. reported higher rates for farm loans, 33 per cent. lower rates for farm loans, and 59 per cent. no distinction in rate between farm and urban loans.

Commenting on these data, Mr. Holmes remarks:

"The trend of the rate of interest on farm mortgages since the census investigation of 1890 has undoubtedly been downward in all parts of the United States. One reason for this is that the supply of credit has, on the whole, increased in somewhat greater degree than the demand for it. But another reason for the declining rate of interest since 1890 is found in the decreasing risk of farm loans. During a period of ten years or so, in the middle of which was 1890, the risk in making farm loans was

considerable. It was the period of agricultural overproduction, of the taking of immense areas of new land into cultivation, of the destructive use of the natural fertility of the soil, with results found in lower prices of products and depressing competition. The rates of interest on farm mortgages during that period reflected the lenders' sense of risk in making the loans.

"Reports of Extreme conditions: The correspondents who reported to the Secretary of Agriculture mentioned many extreme cases of hardship in rates of interest and inability of farmers to pay them. Cases of this sort were found in isolated communities, in communities where the agricultural practices were poor and inefficient, where the land required costly treatment to make it profitably productive, and where the loan market was inadequately supplied. There are many such places in as large a country as the United States, but the population in them is scarce and the aggregate number is small."

After quoting several extreme instances, Mr. Holmes further remarks: "The foregoing instances illustrate the extremities to which farmers are forced in some communities in the United States when they obtain credit. On the

other hand, there are many instances of low rates of interest and of a plethora of money for loaning purposes." After quoting a number of such instances, he goes on to say:

"Some writers and public speakers on the subject of rural credit in the United States are inclined to ignore the facts that oppose the generalizations that they express and consequently greatly misrepresent the situation. One writer asserts that '6,000,000 common, everyday farmers—the producers of the great mass of the agricultural products—are unable to secure credit at reasonable rates in small amounts for a short time to tide them over emergencies.' Such sweeping and preposterous statements as these are very greatly qualified by the recent investigation of the Secretary of Agriculture, although his investigation also establishes the truth of the assertion that rural credit is very deficient and costly in many communities."

There was presented to the Joint Congressional Committee investigating rural credits in 1915 a schedule of prevailing interest rates based on another inquiry. This schedule distinguished between interest rate and total commission charges, and may be summarized

as follows, each figure representing the so-called average:

| UNITED STATES | AVERAGE INTEREST RATE | AVERAGE ANNUAL COMMISSION | INTEREST PLUS COMMISSION | AVERAGE TERM OF YEARS |
|---|---|---|---|---|
| New England | | | | |
| Maine | 6.1 | .1 | 6.2 | 4.0 |
| New Hampshire | 5.3 | (3) | 5.3 | 7.0 |
| Vermont | 5.6 | (3) | 5.6 | 4.9 |
| Massachusetts | 5.6 | (3) | 5.6 | 4.1 |
| Rhode Island | 5.7 | .2 | 5.9 | 3.2 |
| Connecticut | 5.7 | (3) | 5.7 | 1.7 |
| Mid. Atlantic | | | | |
| New York | 5.5 | .1 | 5.6 | 5.7 |
| New Jersey | 5.5 | .3 | 5.8 | 2.7 |
| Pennsylvania | 5.5 | .3 | 5.8 | 3.9 |
| E. N. Central | | | | |
| Ohio | 5.9 | .2 | 6.1 | 4.0 |
| Indiana | 5.8 | .4 | 6.2 | 4.9 |
| Illinois | 5.7 | .3 | 6.0 | 4.8 |
| Michigan | 6.3 | .3 | 6.6 | 4.9 |
| Wisconsin | 5.7 | .1 | 5.8 | 4.9 |
| W. N. Central | | | | |
| Minnesota | 6.3 | .5 | 6.8 | 5.1 |
| Iowa | 5.6 | .3 | 5.9 | 5.1 |
| Missouri | 6.2 | .6 | 6.8 | 4.7 |
| North Dakota | 6.9 | 1.8 | 8.7 | 5.0 |
| South Dakota | 7.0 | 1.0 | 8.0 | 4.8 |
| Nebraska | 6.3 | .8 | 7.1 | 4.9 |
| Kansas | 6.1 | .8 | 6.9 | 5.1 |

| UNITED STATES | AVERAGE INTEREST RATE | AVERAGE ANNUAL COMMISSION | INTEREST PLUS COMMISSION | AVERAGE TERM OF YEARS |
|---|---|---|---|---|
| S. Atlantic | | | | |
| Delaware | 5.6 | (3) | 5.6 | 4.6 |
| Maryland | 5.7 | .4 | 6.1 | 3.3 |
| Virginia | 6.1 | .7 | 6.8 | 3.3 |
| W. Virginia | 6.2 | .2 | 6.4 | 2.4 |
| N. Carolina | 6.3 | 1.4 | 7.7 | 2.5 |
| S. Carolina | 7.8 | .6 | 8.4 | 2.9 |
| Georgia | 7.6 | 1.1 | 8.7 | 4.3 |
| Florida | 9.0 | .6 | 9.6 | 1.8 |
| E. S. Central | | | | |
| Kentucky | 6.7 | .4 | 7.1 | 2.6 |
| Tennessee | 7.3 | .6 | 7.9 | 3.3 |
| Alabama | 8.7 | .7 | 9.4 | 2.8 |
| Mississippi | 8.0 | .5 | 8.5 | 2.7 |
| W. S. Central | | | | |
| Arkansas | 9.0 | .6 | 9.6 | 3.5 |
| Louisiana | 8.2 | .4 | 8.6 | 3.1 |
| Oklahoma | 6.6 | 1.8 | 8.4 | 5.4 |
| Texas | 8.4 | .6 | 9.0 | 4.6 |
| Mountain | | | | |
| Montana | 8.4 | 1.6 | 10. | 4.8 |
| Idaho | 8.2 | .7 | 8.9 | 4.9 |
| Wyoming | 9.2 | .8 | 10. | 3.5 |
| Colorado | 8.3 | .6 | 8.9 | 4.1 |
| New Mexico | 9.7 | .8 | 10.5 | 3.2 |
| Arizona | 9.1 | .3 | 9.4 | 2.4 |
| Utah | 8.6 | .4 | 9. | 5.0 |
| Pacific | | | | |
| Washington | 7.9 | .8 | 8.7 | 4.2 |
| Oregon | 7.7 | .3 | 8.0 | 3.9 |
| California | 7.4 | .2 | 7.6 | 3.3 |

As we have stated before, the deficiency and cost of rural credit in the high-rate communities can readily be accounted for on the ground of low standards of agricultural skill and soil production, uncertain land values, legal and other handicaps, and numerous other factors.

It should be further remembered that in all such investigations the *volume* of loans outstanding at the various rates quoted is not ascertained, and without determining the *ratio* of total amount to rate in each case, the rate means little. For example, even though 70 per cent. of the farm loans in Iowa should bear a rate of 5 per cent., and of the remaining 30 per cent. of the total, one half should bear 6 per cent. and the other half 7 per cent., the average rate reported for the State would be the average of the three rates or 6 per cent., whereas it is obvious that this is not a fair indication of the actual condition, inasmuch as on the basis of the above figures nearly three-quarters of the total loans carry less than 6 per cent.

To determine the actual state of things it would be necessary to know the *total amount* of loans carrying *each rate* throughout the country, and no investigator, private or official, has ever seriously attacked this herculean task.

Another important consideration in determining the reasonableness of prevailing interest rates is the character of the loan carrying the rate. The prevailing rates of interest, including discounts, on second mortgages in the most prosperous and well-financed cities of the United States are 10 per cent. and upward. It would not be unreasonable for a second mortgage on a farm to carry such a rate, but it would be misleading to average in such a rate in determining the real cost of *first* mortgage money in the same community. Again, where a loan is made for 60 per cent. or 75 per cent. of the value of the security, it is outside the pale of conservative loaning, and the borrower must pay a rate higher than that prevailing on first-class security. To quote the rate on this inferior security as a maximum or even to consider it in arriving at an average rate for first mortgage security is misleading. Still another important consideration is the size of the transaction. It would be a hardship to borrowers if small loans of $200 to $500 were not obtainable, but borrowers of such small amounts, relatively, must expect to pay more for the accommodation than their fellows who borrow $1,000 to $10,000 on a single mortgage, for the prevailing rate is based

on an overhead expense proportionate to the larger amount, and unless a higher rate were charged for the smaller loans, they would have to be made at a loss to the lender or would not be made at all. A superficial view of the practice of charging a higher rate on the small loan to the small borrower than on a large loan to a wealthy borrower is often condemnatory of the practice as usury or oppressive, whereas, in reality, the only alternative is charity. The remedial loan societies of the cities have been violently criticised for charging 24 per cent. on small loans, whereas they actually are philanthropic in character, earn nominal or no dividends, and barely meet expenses, although managed by able directors who give their time gratuitously, and see to it that no extravagant salaries or expenses are permitted.

So it is evident that a *reasonable* rate of interest is a purely *relative* quantity—relative to security, legal and economic conditions, moral hazard, volume of business, costs of doing business in the community, size of the loan unit, and cost of getting the money for the loan. Every community must pay in proportion as these conditions are favorable or otherwise, and there is no alternative except a steady campaign to

remove obstacles that are not inherent in the community or to transfer part of the burden to another community. We would repeat, that this latter course whether accomplished by loan of Government credit, exemption from taxation which always transfers the tax to somebody else, or by any other means which does not put the burden on the community at fault, is charity, not economics or "rural credits," and should be so recognized, that we may not deceive ourselves into thinking that we can upset economic laws by legislative fiat.

### RURAL CREDITS AS A POLITICAL ISSUE

It is a well-known fact that when any problem or issue is widely known and appeals to the popular imagination, it is likely to take on a political complexion. The political parties and individuals in those parties are naturally interested and quite willing to make political capital of it. Where this political interest responds to a real need, and concerns itself with legitimate and sound measures of legislative relief, it is to be applauded. Too often, in every such agitation, the popular element in the question will not bear analysis as being subject to genuine

relief by legislation, and to capitalize the political advantage of the question it becomes necessary to obscure the real issue, often magnifying the need or confusing cause and effect. Either consciously or unconsciously, those interested allow themselves to so interpret the problem to the public as to make it appear susceptible of solution by the popular voice expressed in law, and so too often the public get their information entirely from writings or utterances that ignore facts, or distort them. The need is magnified, or the real need obscured, the existing conditions and facilities to meet the need are misrepresented or underestimated, and the relief to be obtained by legislation is magnified.

Exactly this condition is true of the so-called "problem" of rural credits. Very few writers or speakers on the subject show adequate knowledge of the real conditions, and we have tried in this Handbook to represent conditions as they are, in order that persons genuinely interested may base their conclusions on the facts, and not on such broad and inaccurate statements as:

"The farmers of the United States pay 8 per cent. on the average for their loans, and some-

thing should be done about it," a statement of the widest currency and used by high authority.

Advocates of rural credit legislation have claimed many and varied advantages would result; for example, a revival of agricultural activity in many sections, the partial abolition of tenancy, substantial improvement in living conditions—better homes, better roads, better educational facilities; in fact, nearly everything that the farmer wants or his self-chosen friends think he wants.

That many of these claims are preposterous in extent and character is evident when we recall that a difference of 1 per cent. or even 2 per cent. on the annual interest rate on a $1,000 loan—which is fully as large as the average in the high-rate territory—is not more than the average return of one acre of land (a small fraction of the usual farm) under mediocre methods of cultivation. Too often the importance of lower interest rates is magnified in order to thus lay at the door of the money lender responsibility for untoward conditions for which he is not even remotely responsible. Poor farming methods, shiftlessness, inadequate population and markets, needless handicaps that bar outside capital, etc., will, on analysis,

always be in evidence in those districts where rates are higher than in the best sections.

That reduced interest rates do not reduce tenancy can be fairly deduced from the fact that, apart from the negro tenants of the South, the highest percentage of tenancy is found in the most prosperous agricultural sections, where interest rates are lowest. Decreasing interest rates are practically always associated with increasing land prices, because the capitalized value of land on a low interest basis is of course higher than on a high interest basis, and also because low interest rates naturally follow that kind of agriculture which makes for higher and more stable land values.

Again, we repeat, whether an interest rate is high or low is a purely relative question. A farmer on $200-an-acre land where the interest rate is 5 per cent. must charge against the gross income each year $10 an acre interest. The farmer on $20-an-acre land where the interest rate is 8 per cent. must charge against each year's gross income $1.60 per acre, or $8.40 less than the farmer in the 5 per cent. country. This may well represent the difference between loss on the year's work and substantial profit. The farmer in the 8 per cent. country is in effect paying a

much lower rate of interest than the farmer in the 5 per cent. country. That this is not a mere theoretical advantage is indicated by a study of land values in relation to prevailing interest rates—the close correspondence between high land values and low interest rates.

The law of compensation operates here as elsewhere, and emphasizes the futility and inequality of artificially reducing interest rates at the expense of some other community or class in the community, whether by exemption of farm borrowings from taxation which must be borne by other borrowers or by lending Government financial aid or credit. Many superficial persons think of Government credit as an unlimited reservoir, that might well be loaned to any and every class in the community. They do not realize that every increase in the use of Government credit raises the interest rate on all Government borrowings, and thus increases taxation, and that the apparent benevolence of Government resolves itself into simply robbing Peter to pay Paul, or even deceiving Paul into thinking he is getting something for nothing, when in reality he is paying increased taxes himself out of one pocket to save paying money out of the other.

Now, as never before, we as a people need to remember the inexorable economic axiom that "we cannot get something for nothing."

Turning to what may be done constructively by legislation, on a sound social and economic foundation, giving up all ideas of "lifting ourselves up by our own boot-straps," we find two important general principles governing suggestions in that direction: (1) Coöperation, and (2) State and Federal incorporation and regulation.

Coöperation by groups in every walk of life is a recognized means to effective action, and so far as farmers will subordinate their strongly individualistic traits to the common advantage of the group, and so far as they can prevail on each member of the group to live up to the necessary conditions of successful business management, there seems no reason to believe that coöperative effort on the part of farmers to effect economies and obtain better facilities should not be advantageous. Such coöperative effort might well be directed to the obtaining of credit, as to the purchase and sale of commodities, etc. Certainly there seems no reason why the State and Federal governments should not enact

legislation giving to such coöperative groups the legal means to operate.

Many of the States have already taken steps to that end, and the various agencies working for agricultural advancement—the Federal and State agricultural departments, the State universities, etc.—are encouraging the work.

The second principle is in the direction of State or Federal incorporation of land mortgage banks, and State or Federal regulation of their financial and business equipment and methods to insure public confidence and safety. Measures to that end which do not involve favoritism, bureaucracy, Government subsidy or special privilege, but which are based on the recognition and enforcement of sound business methods, are certainly praiseworthy, and have been so recognized by all patriotic citizens, whether interested directly in the present business of land credit or not.

Presumably, no citizens are more able to determine what direction such legislation should take than those who have spent the best years of their lives trying to overcome the obstacles that it is sought to eliminate. About the time that the likelihood of Federal legislation on this subject was first recognized, some of the men

who had spent their lives in the business of negotiating land credits formed the Farm Mortgage Bankers' Association of America, which now embraces in its membership nearly two hundred of the best known and most experienced institutions and firms in the farm mortgage banking business.

The association as a whole discussed the prospective legislation at its annual meetings, and its Board of Governors, made up of representative members from all over the country, held frequent conferences, with the final result that, at the annual convention of the association held in St. Louis, on October 7–8, 1915, certain recommendations were adopted by resolution of the association.

In closing this chapter we append these recommendations as being an epitome of the best wisdom in the country on the subject of Federal rural credit legislation:

"This Association was formed and exists to further any action which will facilitate rural credits, whether by legislation or individual or organized private effort. We, therefore, favor rural credit legislation so far as it may, without violation of the constitutional and other vital principles of our form of Government, and

without disregard of economic law, be effected to the common advantage of the borrowers and the lenders of the country.

"We believe it is a self-evident truth that credit has no expression without 'financial trustworthiness.' The borrower must have it and the lender must believe the borrower has it. A successful system of rural credits must recognize this truth, and the mutual interdependence of borrower and lender.

"The form of rural credit, however, which the members of the Association are engaged in furnishing, is long-time credit on approved land security. The Association therefore confines its specific recommendations to that form of rural credits, although it recognizes that there are defects and deficiencies in the facilities open to the tenant without land, or the newcomer—either immigrant or city bred—who would go on the land. This Association applauds the efforts to help both the nation and this type of individual by financing his establishment on the land, and would be pleased to render any assistance within its power to such a movement.

"In considering the phase of rural credit having to do with long-term loans on the security of land the Association accepts the following fundamental propositions:

"1. The object to be accomplished is to so mobilize this form of rural credit as to make it available to every landowning farmer in the

United States on terms as favorable as the market affords, consistent with the security offered.

"2. To accomplish this object it is neither necessary nor consistent with the principles on which this Government is founded, to lend to farmers, as a class, either the credit of the nation or its moneys, either directly by Government loans, or indirectly by subsidies or guarantees.

"3. The object is, rather, attainable by removing those obstacles, legal and otherwise, which prevent the farmer's paper from reaching the investment market generally in such form, on such terms, and from such a source as to make it at least as acceptable in the matter of assured security, convenience of handling and convertibility, as any other investment of equal intrinsic merit.

"This Association believes this object, once attained, would provide for the farmer:

"1. Credit in quantity much greater than at present, and in quantity certainly sufficient for all legitimate purposes.

"2. Credit on a basis of intrinsic security rather than of extrinsic factors such as the special laws of any given State, the distance of the security from the source of the funds, the terms as to maturity, etc., on which it was desired to borrow the money. This result would be gradual, requiring the amendment of the State laws as to titles, collections, taxation, etc., among other changes dependent on the citizens

of the States, and not on anything the Federal Government can do by statutes.

"3. Loans for long terms, as well as short terms, 'straight' or serial maturity, or amortized as to principal, the latter free from renewal worries or expense.

"4. As low rates of interest as the free play of supply and demand in the investment market affords, when not encumbered by the factors of lack of confidence, lack of convenient form, convertibility, and legality for certain funds, which factors now bar the farm mortgage from a very large market. We do not believe that lower rates can be obtained in any other way, and least by arbitrarily trying to fix by statute either interest rates or margin of profit or terms of negotiation.

"To carry out the object outlined we believe that so far as possible present machinery should be utilized and supplemented to that end. We favor the enactment of a Federal law if constitutional, providing for the formation of national land mortgage banks with Federal charters, subject to Federal regulation as to their methods and personnel, and Federal supervision of their affairs in much the same way as the national banks of the country are managed and supervised. We believe that these banks should have the dual privilege of:

"1. Negotiating, buying and selling individual farm mortgages, thus making it possible to conduct the business without interrup-

tion as at present so far as the public demands.

"2. Issuing farm mortgage bonds against the collateral security of farm mortgages made either for straight term or amortized to give the special advantages of this form of security

"We believe that the safety of the securities issued by such banks should be assured by very careful regulations, including provisions that the issuance of bonds and the power of substitution of mortgages collateral thereto should be under the immediate control and supervision of the proper Federal authorities, and also that a graduated guarantee fund should be established out of earnings, in proper ratio to the outstanding bonds, this fund to be invested in securities at least equal in quality and of a standard established by Federal law, and to be held separate from the general assets of the corporation.

"We believe that the minimum capital stock of such banks should not be less than $500,000, for the reason that less capital responsibility than that would fail to command the degree of confidence necessary in the investor, and that it is desirable to have at least that amount of capital responsibility between the investor and loss, from the outset.

"We believe that the volume of the outstanding liabilities should not exceed twenty times the unimpaired capital and surplus of the bank.

"We believe that these banks should be free of limitation as to their territorial scope, either

in securing mortgages or selling mortgages and bonds, thus obtaining the advantage of unrestricted markets for their securities and enabling such banks wherever located to obtain and sell to their customers securities on terms most acceptable to their market.

"We believe that the Federal provisions for the conduct of such banks should include the qualifications for the mortgages eligible for purchase or negotiation by these banks.

"We believe that where these mortgages are purchased from a negotiating agent and are not negotiated direct by the national land mortgage bank, they should be purchased only from such individuals, partnerships or corporations as shall qualify under the provisions of the Federal act and which shall be duly inspected and passed upon periodically by the proper Federal authorities. We believe that this supervision would make it unnecessary to provide for the Federal incorporation of small mortgage negotiating concerns throughout the country, thus leaving any individual or group of individuals perfectly free to do business on the most economical plan provided their securities measured up to the qualifications demanded, and provided their affairs were regularly inspected by a Federal officer.

"We advocate this system because we believe it would go far to obtain for the farmer the advantages above enumerated by giving to the investor the following advantages:

"1. The securities of such institutions would

come before the people with the prestige attached to Government institutions.

"2. The bonds of such banks would be made convertible by being standardized as to form and listed on the stock exchanges.

"3. They could be issued in convenient denominations both large and small, making them available for purchase by small investors who now have practically no safe investment open to them except the savings banks.

"4. They could be issued with both long and short maturities, thus reaching a large market, especially in the east, which to-day confines its investments to securities of short maturity.

"5. They would offer the investor a security which would not involve the troublesome prepayment privileges now attaching to most individual farm mortgages.

"These and other advantages would open up a large market now unreached by the existing farm mortgage companies, and this market could be decidedly amplified by Federal provisions, including making them legal for the investment of postal savings.

"We believe it also likely that gradually it would be possible to secure the amendment of State laws in such a way as to make the securities of these banks legal for savings banks and trust funds now barred from farm mortgage investment by existing State laws, and to secure the modifications of State laws as to taxation which now bar farm mortgages from several States."

# THE FARM MORTGAGE IN THE UNITED STATES

# CHAPTER II

## DEFINITION

As WE have seen, the field of rural credit is a wide one, and farmers' paper takes many different forms. The farmer's land, however, is always his chief basis of credit, and as such is often pledged as security to several creditors at once. One creditor may be the man who sold him his land, and who secures himself for the unpaid part of the purchase money; another may be the man who sold him his machinery or livestock equipment; another may be the local bank which has financed the preparation of the land for crop. Whatever the source of the credit, it is customary in most sections of the country, unless the farmer's personal property is considerable and unencumbered, to take a lien on his land as security. These liens take precedence, one over the other, depending on the order in which they are taken, and first, second, third, and even fourth mortgages may be the result, until the land may be pledged as security

for debts almost equalling the value of the land.

Under the law everywhere the holder of the first lien has the advantage over the holder of a subsequent lien in the fact that the holder of the second, if it becomes necessary for him to take the security in payment of his claim, must either pay off or assume the first claim. The holder of a third lien, in his turn, if he wishes to recover, must take care of the first and second claims. The decidedly greater risk assumed by the holders of liens secondary to the first mortgage, therefore, results in making the terms of these subsequent mortgages quite different from those exacted in the case of a first mortgage. Usually these subsequent mortgages require to be paid off in a shorter term than the first. They are written usually at higher rates of interest, and are usually not rediscounted or purchased by third parties for investment, but require to be held by the original creditors, who have obtained some profit from the transaction that resulted in the debt, and do not look to the interest on their mortgages as income primarily, but as compensation for waiting for payment or for taking the risk incidental to postponing payment.

Without going further into the various classes

of liens given by farmers against their farms, or the reasons for them, it is clear that the first lien, which may be secured by* first mortgage, first deed of trust, or security deed, depending on the State or Province within which it is negotiated, is in a class by itself. It is this class of farmers' obligation which is commonly known to investors as the "farm mortgage." The first farm mortgage offered to investors by farm mortgage bankers and appearing among the assets of insurance companies and banks is customarily the security for a loan made for productive purposes and representing the farmer's principal and most necessary financing—the purchase of land, the improvement of it, the purchase of implements or livestock, or some other permanent investment on the farmer's part, as distinct from his temporary or less fundamental needs, which may be taken care of by short-time financing.

As a result, on this form of security the farmer usually seeks to borrow as much money as he can profitably use. He wants the principal for at least five years, subject to privilege of earlier prepayment if he can get it, and expecting renewal of the principal, if his operations at the end of the term have not yielded sufficient

* See Appendix for definitions and forms.

profits to make the continuation of the credit superfluous.

Ordinarily the amount which the farmer borrows in this way is restricted mainly by the rules of the lender, which depend largely on the locality. In old established and populous localities, where land values are considered stable and there is a ready market for lands, it is considered conservative to lend up to 50 per cent. of the value of the land at forced sale. In localities where land values are more likely to fluctuate, and where the demand for land is not sufficiently keen to make it possible to readily realize on land unless offered at a sacrifice, it is customary to restrict loans on first mortgages to 40 per cent., 33⅓ per cent., or even less of a fair going value. Practically the only exceptions to these restrictions in the relation between the amount of first mortgages and the value of the security, occurring in the United States, are found in cases where the vendors of land have sold for a small payment down, and taken back a first mortgage for the balance of the purchase price. Such first mortagages are not, however, commonly offered for sale to investors, except at a discount to offset the greater risk.

Although land not in cultivation or otherwise

unimproved may be included in the security for such first mortgage financing, the borrowing of money on unimproved lands alone is a difficult proceeding. As a rule the borrower must offer special inducements in the form of higher interest and ample personal worth to obtain the acceptance of unimproved security.

To summarize, therefore, the "farm mortgage" as publicly offered for investment may be defined as an investment in the form of a loan to an individual farmer or farming partnership or corporation, secured by a first lien on improved producing farm land worth at least twice the amount loaned.

To complete the definition, but without going into technical legal details, it should be added that the farm mortgage embraces twofold security in the sense that the borrower's personal worth as well as the land under mortgage is pledged. The borrower gives his personal bond or note, the payment of which in turn is secured by the pledge of the land. If the borrower fails to meet his obligation, the land may be sold and the proceeds applied first to the extinguishment of the debt, but the borrower's personal obligation is not thereby discharged unless and until the debt is fully paid. Hence

the personal worth of the borrower is a consideration in lending on first mortgage security.

The personal obligation or promise to pay is, in our Eastern States, e. g., New York and Massachusetts, evidenced by a so-called "bond" which binds the debtor personally. Hence the familiar phrase "Bond and Mortgage." In the Central, Southern, and Western States generally, however, from which come most of the farm mortgages held by investors, the personal obligation is evidenced by a negotiable note, which passes by endorsement accompanied by an assignment or transfer of the mortgage, trust deed, or security deed. For purposes of convenience, coupons representing the interest payments are attached to the note for principal, and the document is quite similar in use and appearance to the ordinary investment coupon bond.

In Canada the old form still obtains of combining the promise to pay and the mortgage covenants in a single document. In all jurisdictions the effect is virtually the same, apart from various minor modifications by statute.

# CHAPTER III

## THE NEGOTIATION OF FARM MORTGAGES

The farm mortgage is the result of what is primarily a simple transaction. The farmer borrows money of his neighbor, or his nearest bank, or through the local agent of some outside source of capital. As security for the loan, he gives a mortgage on his farm, securing the repayment of his loan on such terms as to interest rate and the term of the loan as may be agreed upon between lender and borrower.

To a certain extent, these terms are determined by the borrower, and, to a certain extent, by the lender. The laws of supply and demand, and of competition, govern here as in other business transactions. The farmer who is not a fool will not borrow on terms that will not yield him a profit, neither will he accede to terms quoted him by one lender if he can get better terms from another. The lender, on his part, will naturally make as favorable a bargain for

himself as he reasonably can. The exactions of a Shylock, and the tragedy of the foreclosed mortgage, so popular on the melodramatic stage, have little place in the wide field of mortgage negotiations throughout the country, and the fact that they exist as surely as do the qualities of human nature that produce them, is not material to a consideration of the normal conditions affecting farm mortgage negotiation.

Naturally, other things being equal, the larger the supply of loanable funds available in a given agricultural community, the better the terms for the borrower on farm mortgage. Such communities are usually found in the longer settled and more populous States and Provinces, where local savings have accumulated and where connections with outside capital have been long established. Capital is available to the borrower in such localities on better terms also, not only because it is in greater quantity, but because the borrower in such a locality generally is well known as to his resources and reputation for meeting his obligations, and because he has security to offer, as a rule, which is readily marketable if he becomes hard-pressed. Capital will always stay at home and accept terms nominally less advan-

tageous to itself rather than risk exportation to fields where terms are nominally more favorable. Exportation entails removal from personal oversight, and dealing with conditions not familiar to the lender, and the timidity of capital, in the face of real or supposed risk, hinders the flow of capital which would otherwise be natural from sections where the supply of capital exceeds the reasonable demand for loans to sections where the reverse is the case.

This seemingly academic discussion of the law of supply and demand is introduced to suggest that the clamor of so many publicists against the inequality of interest rates and other borrowing terms in the various parts of the United States and Canada must be as ineffective as opposition to economic law must always be, and that the removal of any inequality which may not be due to actual difference in the security must surely result as the less favored sections demonstrate their economic strength and thrift by accumulating local capital, and attracting larger and larger supplies of outside capital by giving it satisfactory security and sufficiently attractive terms to tempt it from its home.

It is always comforting to the sympathizer

with the efforts of the pioneer to realize that capital is not the only pioneer which demands a reward for its adventuring. The farmer in the newer sections of this country—in the sections where the terms for borrowing are more onerous than in the older, better settled sections—may pay a higher rate of interest and not have so many privileges in his mortgage, and yet be getting a far greater return from his borrowed capital than his brother in "the 5 per cent. country." It is a question whether the farmer who pays 5 per cent. on a loan of $50 an acre in order to finance the acquirement of a farm costing him $100 an acre, pays an actually smaller price for capital than the farmer who pays 8 per cent. on a loan of $10 an acre to enable him to buy a farm costing him $20 an acre, on which he can raise enough to pay for the land in one, two, or three years, as is so often the case in our pioneer farming districts; yet each finances half the cost of his land. The first farmer incurs an annual interest charge of $2.50 per acre in doing so, and the other an annual interest charge of only 80 cents per acre. The pioneer land holder has his reward as well as the pioneer lender.

And it may be well to point out here that this

inverse ratio of interest rates to land values constantly tends to diminish; that is, as land values rise, the interest rate falls. The more cheaply land can be financed on borrowed capital, the higher the price that will be paid for it, generally speaking, even though interest rates are not the only factor in appreciating values. Many advocates of Government intervention to reduce interest rates in pioneer sections state as one result that would come from such reduction, the increase of independent farm proprietorship and the lessening of tenancy, forgetting that the highest percentage of tenancy in the United States is in the States where the farmer may borrow on the easiest terms, and that it is next to impossible to get a good tenant in the States where money costs the farmer 8 per cent. and 10 per cent. This is also an interesting sidelight on which sections of the country yield the best profits to the land-owning farmer.

The foregoing rather wide digression to show the basis of the terms of the negotiation of farm mortgages will have suggested to the reader that there are two factors in this basis—so far as the supply of capital is concerned—the lender of local capital and the lender of outside capital.

In a sense, the terms of lending are governed by the local lender, through the fact that the larger the supply of local capital, the easier are the terms, generally speaking. On the other hand, the terms of lending are also largely controlled by the lenders of outside capital. The outsider must have terms sufficiently attractive to bring him into the community, but once there, he will, in order to get the business, ordinarily quote the best terms he can and still afford to remain. The local lenders cannot, for the most part, successfully overbid him, so that the general level of terms descends to the basis on which outside lenders can afford to do business. We say "descends" because it is an established fact that interest rates are lowest and terms otherwise the most favorable where outside capital is most readily obtainable. (The numerous factors found in each loaning field, which affect the terms of lending, will be discussed elsewhere.)

This situation is seldom found in the eastern United States, but in the Central, Southern, and Western States, and in Western Canada, it is almost universal. Thus it is that whereas local individuals and banks negotiate the greater proportion of farm mortgages in the United

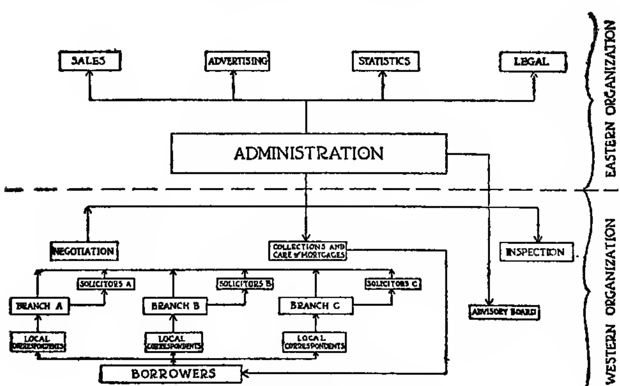
States and Canada and continue to hold them with their own funds, still they do so on terms largely fixed by the two great classes of lenders of outside capital: the insurance companies and the farm mortgage banking houses. In the term, "farm mortgage banking house," are included all institutions, either corporations, firms, or individuals, which negotiate farm mortgages with their own funds, and resell them in completed form to investors. Many banks and trust companies have departments for this business in addition to the institutions which confine their business to farm mortgage banking.

It is the farm mortgage as standardized by these two negotiating agencies that has found a place in the investment market at large, and for the purposes of this Handbook it is this standardized form of farm mortgage which is of interest. In the case of both insurance company and farm mortgage banker, the method of negotiation is substantially the same, even though the former negotiates for its own investment only, whereas the latter negotiates in the first instance with its own capital, but holds the investment only long enough to find an investor to whom the mortgage may be sold, thus releasing the capital for loaning again. In dis-

tinguishing between the insurance company and the mortgage banker, we refer only to the insurance companies which conduct their own negotiations in every detail through salaried employees. Many of the leading insurance companies buy their farm mortgages from farm mortgage bankers, and are investors only, and not negotiators.

The method of negotiation employed by a typical farm mortgage banking house, or "mortgage company" of repute, will illustrate the system of negotiation generally in vogue in the United States.

ORGANIZATION CHART




ORGANIZATION CHART
OF A
TYPICAL FARM MORTGAGE BANKING HOUSE

By way of explanation, the course of a loan from its initiation to the end of its term may be traced. The farmer who wants to borrow goes to the nearest local correspondent of the mortgage company, who may be a man engaged in a general insurance, real estate and loaning business, or who may be a lawyer, or even a merchant or a farmer. Or the local correspondent may be a local bank or bank officer. The qualifications of the local correspondent are reliability, knowledge of values and conditions in the adjacent farming community, wide acquaintance, with a favorable reputation among the farmers, and ability to judge the moral hazard, i. e., the personal qualities of the borrower. The local correspondent explains the terms on which a loan will be granted, and if satisfactory obtains from the farmer a formal application on an application form furnished by the Company. The farmer is called upon to answer numerous questions designed to bring out not only the nature, condition, and value of his land, but his financial condition, his personal characteristics, his family relationships, and the purpose for which the money is required. (See Appendix for typical form.)

The local correspondent then makes out his own confidential report on the security, both physical and personal, based often on a special trip of appraisal to the farm, and on his personal knowledge of the circumstances attaching to the business. This report and the application then are sent to the nearest branch office of the company, where they are examined by the manager, the application either being rejected or tentatively accepted. If tentatively accepted the manager of the branch office makes his own appraisal of the security and, if he approves the loan, sends all the papers to the head office for final consideration which is always at the hands of one of the executive officers, or a group of them. At the head office there is brought to bear on the application all the accumulated knowledge and experience of years of farm mortgage negotiation and of personal study on the part of the officers of conditions affecting the district from which the application comes. Usually there are at the head office extensive field reports made by officers of the company on their frequent trips of investigation, and there are available to the officers numerous sources of information regarding general conditions in the various loaning districts, including the company's banking con-

nections, the collection departments of wholesale mercantile houses, etc.

If a loan application passes this gauntlet successfully, the matter is turned over to the company's lawyers, or legal department, for the preparation of the papers and the examination of the borrower's title to the land he offers as security. The papers are ordinarily sent to the branch office and thence to the local correspondent to be signed, and then are returned, checked up, and when complete and in proper form, the mortgage, trust deed, or security deed, as the case may be, is recorded as a first lien, all existing encumbrances or liens on the land, if any, having previously been paid out of the proceeds of the loan or otherwise. Then all details of the terms and recording references of the mortgage are recorded in the company's mortgage registers, and the care of the mortgage passes into the hands of the department having charge of collections of interest, etc. A description of the mortgage goes to the sales department for their use, in offering the security for sale to the company's clients. A description of the methods employed in this department of the business is reserved for the next chapter. The mortgage, however, whether sold or not, is treated from now on as

though it were the property of the company; at least so far as the care of all details affecting the security is concerned. Not only are interest and principal collected when due from the borrower, but insurance, when assigned as collateral security, is maintained, and the payment of all taxes and assessments is secured, and any changes of the ownership of the land or any other matters affecting the security are recorded. If the mortgagor fails to pay insurance premiums or taxes when due, the company ordinarily advances the amounts due, charges the mortgage account, and endeavors to collect the amount in due course from the mortgagor. The customary mortgage provides that failure to pay taxes or insurance premiums constitutes a default just as fully as failure to pay interest, and such default at the option of the holder of the mortgage matures the entire debt, principal, and interest, enabling recovery by foreclosure.

Many of the largest mortgage companies, for the convenience of the holders of their mortgages, advance the interest when due to their customers, as well as take the responsibility of advancing taxes and insurance premiums. These companies then rely on their ability to collect

these amounts from the mortgagors in due course, or, at the worst, to recover by foreclosure. Customarily, if foreclosure becomes necessary, the company takes back the defaulted mortgage from its customer, giving him therefor either principal and interest to date or another mortgage in good standing. The mortgage company then relies on finally recovering enough to save it from loss, and if the loan was properly placed in the first instance, there will be no loss. This service as practised for many years by many companies, without loss either to themselves or their clients, has an important bearing on the investment value of the farm mortgage which will be referred to later.

The above brief outline of the course of negotiation of a farm mortgage gives only a hint of the very considerable detail and care involved in properly dealing with many hundreds of applications, no two of which are alike in all particulars. Some idea of the many considerations that affect the negotiation may be had from the following quotation from a circular of instructions to local correspondents issued by a company operating in a fairly new and quite extended territory:

## INSTRUCTIONS TO CORRESPONDENTS

### I. REQUIREMENTS AFFECTING SECURITY

*Accessibility of Market*

Accessibility is largely a matter of the topography of the country. On the level open prairie a farm twenty miles from the railway may be more accessible than a farm five miles from the railway located in a hilly, bushy country.

Accessibility must be determined by a common-sense calculation as to the economy of transportation of farm products to market. If a farmer cannot afford to raise grain crops because of the haul to railway, we do not want to lend on his land unless he is in a particularly good dairy section, in which case we will consider a small loan to a good man.

We are inclined to question any security over twenty miles from present railway facilities. Where land is offered at a greater distance than that we need data on the likelihood of new railways and the extent of present development.

*Area of Cultivation*

At least one-quarter of the total area of the security should be in cultivation, unless for some special reason the land is reserved for pasture.

Unless the borrower has just gone onto his land, is largely equipped with livestock, or is doing unusually intensive work, we look for a greater acreage in cultivation.

Improvements on a farm, especially the acreage

cultivated, are looked upon not so much in the light of additions to the physical security as indications of the borrower's use of his opportunities.

If the borrower has lived on his land for some time, and made little improvement, we would reject an application for an amount which we would grant to a farmer of good reputation who was just going on the place and agreed to use the money on improvements.

The ability of the borrower to take care of his obligation is largely determined by the area of his farm under cultivation, if his farm is his chief source of income. We scrutinize particularly the facts bearing on the relation of the borrower's earning capacity to his obligations.

*Purposes for Which Loans Will Be Granted*

We grant loans needed to increase the borrower's earning capacity by:

1. The purchase of horses and stock.
2. The purchase of implements.
3. The final payment on his security.
4. The repayment of high interest loans incurred for legitimate purposes.
5. The purchase of adjoining land, if borrower has equipment and means to farm it to advantage.
6. The erection of buildings needed in the satisfactory operation of his farm.

We usually reject loans desired for the purpose of:

1. Buying land to hold for the purpose of speculation.

2. Paying old debts of doubtful cause.
3. Paying for personal expenses.
4. Paying for threshing outfits.
5. Purchasing anything not needed in the operation of the farm.
6. Erecting buildings out of proportion to the borrower's earning capacity or of the character of the farm.

### *Loaning Value of Cultivated Land and Improvements*

Roughly speaking, perhaps each cultivated acre can be valued at about $4 more than raw land under the same conditions.

The value of buildings, fences, wells, and other perishable improvements must be determined by the appraiser. We do not consider improvements a basis for lending taken by themselves—only in connection with the land itself as proving the earning capacity and thrift of the farmer.

### *Character of Borrower*

We require that all applicants shall be known to:

1. Possess at least average intelligence and farming ability.
2. Bear a good reputation in the community for sobriety and industry.
3. Be free from debt, except the ordinary debts incurred in operating the farm or mortgages secured by other land.
4. Possess average good health.
5. Be not beyond the age for effective work.

We prefer that all applicants shall be:

1. Married.

2. Have children, especially if able to help in farm work.

3. Shall be nationalities known to be good farmers and careful in their business methods.

4. Known to our agents to be prompt in meeting their obligations.

5. Experienced as farmers.

If the applicant is a woman she must, except in special instances, show that she has the aid of a son or other relative in the operation of the farm, who ordinarily must join in the covenants.

We will not accept applications from borrowers known to be:

1. Shiftless.

2. Chronically slow to pay.

3. Intemperate.

4. Inclined to avoid obligations and falsify statements.

5. Incapacitated by age or ill health for effective farming.

### *Other Circumstances Affecting Security*

1. We will not accept, as a rule, applications from borrowers who are not living on the security or close by, or operating it by a manager.

2. We will not accept loans on vacant farms or unimproved lands.

3. We will give preference to farmers who have

shown their ability to succeed in mixed farming and dairying.

### 2. AMOUNT OF LOANS

All loans are restricted to an amount not exceeding one-third the present selling price of the security.

By this restriction we aim to have the lowest forced sale price of the security exceed the principal, arrears, and costs in case of foreclosure, even though the farm be abandoned, improvements depreciated, and the market for lands in that district be at a standstill.

Experience has shown this to be a necessary precaution in farming districts.

In determining actual values for purposes of appraisal, the fact that speculative interest often puts asking prices above obtainable prices must be considered. Also, in certain sections, lack of real estate activity puts actual obtainable prices much below either asking or intrinsic values.

To fix an arbitrary maximum loan in any section is impossible, for in no two securities are the same conditions all present.

The mortgage company's terms to borrowers must include compensation for the services rendered by local correspondent, branch office, head office, and sales representatives, and since the service of the head office continues for the full term of the loan, it may cost considerable

in items of special attention and legal advice, if payments are not prompt. In view of the special costs and fixed expense of this extended service, the margin of profit, coming out of the difference between the rate of interest the farmer pays and the rate the investor in the mortgage receives, is a narrow one, at best, the extent of the margin being lowest in the old, well-established loan fields, and highest in the new, sparsely settled districts. The net profit to the mortgage company, however, is determined rather by the volume of its business and the skill of its management than by its territory, because the wider gross margin of profit in the newer districts is largely reduced in arriving at the net profits by the relatively heavy expense of negotiation borne by a volume of business necessarily smaller in bulk and made up of smaller units.

The distribution of the gross profits between the various factors in the negotiation varies in different localities. In some, the company must divide equally the entire margin with the local correspondent, and out of its half the company must maintain its head and branch offices, support its mortgage service, pay selling commissions, and pay interest on its invested capital.

In other localities the company is able to secure a larger proportion of the margin, but at best, it is obvious that the profit on a $1,000 mortgage is not great. As a result, the mortgage company which knows the cost of doing business realizes that its real profits can come only from a growing volume of outstanding mortgages, bringing an annual revenue from renewals with satisfied customers. And here is another factor in the business affecting the investment value of the farm mortgage which will be discussed in a later chapter.

This margin between the rate of interest to the farmer and the rate to the investor is secured to the company in various ways—usually by taking a so-called commission note secured by a second mortgage registered subsequent to the first mortgage. Thus the mortgage company can realize no profit unless the first mortgage is taken care of. Sometimes the margin is collected in the form of a cash commission collected when the loan is made. A very few companies take the first mortgage and note at the gross rate, and withhold their margin of profit when remitting interest to the investor.

The above description of the distribution of the gross interest rate applies only to the mort-

gage company. The insurance company, since it takes the mortgages for its own investment, simply arranges the customary compensation for its local correspondents, and takes the balance of the income to itself, although, before calculating its net returns, it must deduct a proportionate share of the cost of maintaining its mortgage loan department.

For the investor in a mortgage negotiated and cared for under this system there is no care or expense whatever, so that the interest rate quoted to the investor by the mortgage company is absolutely net.

# CHAPTER IV

## THE MARKETING OF THE FARM MORTGAGE

In the preceding chapters we have described that phase of rural credit operations that results in the creation of first mortgages adapted to the needs of the general investment market, an investment security that may be bought and sold in much the same way as corporation or municipal bonds and stocks.

The relation of the farm mortgage investment banker to his client differs in certain particulars from the relation to their clients of dealers in other securities. And right here there is introduced the element in farm mortgage investing that is of paramount importance to the investor. If the investor in farm mortgages buys them from houses of experience, integrity, and sufficient financial resources, he can have no safer investment, as shown by the records of such houses, covering periods of thirty, forty, and even fifty years of business without the loss of a

dollar to any client. If, on the other hand, the investor buys from an incompetent or unreliable negotiator, he may not only have trouble in collecting his interest and principal but may find his security insufficient. The system of negotiating and caring for the mortgage throughout its term has been described in the preceding chapter, and the farm mortgage bankers of longest experience are the most emphatic in affirming that the faithful and intelligent carrying out of that system, with all its safeguards, is essential.

There are hundreds of institutions in the United States and Canada, however, that have proved their right to the confidence of the investor, and farm mortgages purchased from them will not only be adequately secured, but will not cause the investor a moment's anxiety. He can buy mortgages "over the counter," with papers all complete, in denominations or groups of denominations fitting the exact amount he has to invest, and need give them no further thought except to receive his interest and principal on the exact date due. No investment can be more secure or convenient than such farm mortgages.

To make any individual mortgage investment as convenient and safe as this, however, requires

more than the care in the initial negotiation which any investment banking house bestows on the securities it negotiates and offers for investment. Not only must the farm mortgage banking house assure itself that the physical and personal security for each mortgage is adequate in the first instance, but it must continue a vigilant oversight over the mortgage until it is paid off to avoid forfeiture of the land for taxes or assessments, lapse of the insurance on the buildings because the borrower fails to pay the premiums, inconvenience to the investor because his interest or principal is not paid promptly. The farm mortgage banking house, by giving all this service to the investor, enables him to invest with even greater assurance of safety and convenience in mortgages on lands thousands of miles away, than he could in a mortgage on his neighbor's home or farm. The preference of all experienced farm mortgage investors for farm mortgages of this type over local mortgages not carrying that service is testimony to the truth of this assertion. The question of interest return, although often an inducement in leading to initial investments in such farm mortgages, soon becomes secondary in the investor's mind to the question of safety and convenience, with the

result that farm mortgage companies with an established clientele have no difficulty in selling their mortgages in many localities at interest rates netting the investor less than he could get on local mortgages.

The dependence of the farm loan investor on his mortgage banker, however, is obviously greater than would be his dependence on his investment banker from whom he buys the bond of a great city or a great railway, public service or industrial corporation. In the latter case, although he depends on his banker having taken adequate legal and technical steps to determine the degree and the validity of the security offered, nevertheless, in the matter of the value of the personal and physical security, he usually considers himself the judge, in the last analysis. It is beside the point to argue that no individual investor is competent to judge security of that character. Neither is he competent to appraise the value of the security for a real estate mortgage in his own city. The point is, that he does so judge, and the investment banker is freed of the responsibility to that degree. On the other hand, the ordinary investor in farm mortgages relies wholly on his mortgage banker in the matter of security.

As a result, the farm mortgage banker has a burden of responsibility to bear that we believe no other security would warrant. He cannot allow his client to suffer loss of a single dollar, for his client would make no allowances in case of loss—he would lose confidence in his banker and would wholly discontinue buying from him—whereas, the investor in a railroad bond or an industrial stock does not hold his banker responsible for a loss in such securities, provided it is evident that the banker acted in good faith and with due care in investigating the security in the first instance; and provided he continues to do what he can to protect his client's interests. No investment banker would be expected to advance defaulted principal, or even interest, on the bonds of a railroad or a repudiating municipality. The amount involved is too great, even if the investment banker expected or felt under moral obligation to make such advances. The farm mortgage banker, however, must be prepared to do all this, in the ordinary course of business, and the conservative farm mortgage banker always does business with this contingency in mind.

All this is said with due recognition of the scrupulous care and sense of moral obligation

found in the relation between the better bond houses and their clients—many of the best of them go to much greater lengths in protecting their clients than mere business ethics or the expectations of their clients dictate. We are merely pointing out the greater obligation resting on the farm mortgage banker because of the greater degree of reliance placed on him by his clients.

Each farm mortgage stands or falls by itself, as a small individual unit. The law of average comes to the assistance of the farm mortgage banker, and, if he is careful, the proportion of defaults will be so small that he can always assume the burden, and protect his clients, and in so doing will incur no loss himself because, in his client's behalf, he has sole control of the security and can ultimately recover his advances.

Thus it is that most of the time-tested reliable farm mortgage banking houses can point to a quarter or a half a century of business without allowing a single client to lose anything of principal or interest.

It will be evident from the nature of the relation between the farm mortgage banker and his client, and from the regrettable fact that not all farm mortgage bankers, especially in the early

days of the business, have proven reliable, that the confidence of the investor is the great fundamental in the success of a farm mortgage banking house, and the methods of marketing the farm mortgage in the United States and Canada, to be successful, must be based on recognition of that fact. Not that this is not more or less true of all investment banking and selling, but we need not say more than we have said to show how completely the investor's faith in farm mortgages is bound up in his faith in a particular farm mortgage house or houses, and very often in a single individual. Of no other security is this so true. Most investors feel they can buy bonds of the City of New York, or of the New York Central Railway, as safely from Smith & Company as from Brown & Company, even though they may, as a matter of custom or friendship, prefer to buy from Smith & Company. But because an investor buys Iowa farm mortgages from A. with perfect confidence is no indication that he will even read or listen to offerings of Iowa mortgages made by B. not to mention offerings of Kansas mortgages made by C. It is purely a question of individual dealing based on individual confidence, and the novice in farm mortgage selling soon learns that "Con-

fidence is a plant of slow growth," and that "To him that hath shall be given." The selling power of a farm mortgage banking house grows by accretion. One satisfied customer brings another, and although such advertising is better than reams of circular and periodical advertising —it cannot be hurried. The prospective investor in farm mortgages is more impressed by what a house has done in its record of safety to its clients and volume of business thus safely transacted over a term of years, than by the abstract merits of any mortgage field, or the personnel or financial resources of the house, especially if that house is a newcomer in the field. So that, unless a house has such a record behind it, it must content itself with a slow growth, the extent of which must depend primarily on how successful the management is in impressing its personality in a confidence winning way on the investing public, and how scrupulous it is in all its dealings, especially in the character of the securities offered. The advantage must always remain with the old, well-known, and successful house, in such a competition for confidence, provided that house maintains its vigor and the quality of its mortgages. Much money and time has been spent by newcomers without suc-

cess in trying to effect a short cut to the position enjoyed by such companies.

In placing their offerings before the investor, farm mortgage bankers, like other investment bankers, employ methods depending on their individual judgment and requirements. The well-established house is quite likely to make little or no public offering of its mortgages. Some of the oldest houses have built up their outlet for mortgages in excess of their facilities for securing mortgages, and hence have a harder time to find mortgages than to sell them. Other houses, of equal reputation, have preferred to enlarge their operations, negotiating mortgages in several fields, so as to have a production that will enable them to take advantage of their reputation by making a steady growth. Such houses employ much the same methods of putting their offerings before the investment public as do the bond and stock houses, viz., through circularizing lists of investors, advertising in the periodical and daily press, employing travelling salesmen, or sending certain of their officers to interview prospective investors, by paying a brokerage to representatives in various localities, etc. The margin of profit on which farm mortgage bankers work, however, is a narrow one, and the sales

expense must be kept down. Since national banks, fire insurance companies, business houses, and other large investors which form a large part of the clientele of houses selling readily marketable bonds and stocks do not, for reasons connected with their business, and not because of doubt as to the safety of the farm mortgage, buy the latter, the prospective clientele of a farm mortgage banking house is restricted in most communities, and is largely made up of individual investors, estates, and endowed institutions.

For these two reasons, viz., narrow margin of profit and restricted clientele, the farm mortgage banker seeking to introduce his securities has a more difficult problem than dealers in some other securities. Although it is recognized that the margin in the higher grades of bonds is small, the sale of large blocks to institutional investors is a great help in carrying the load of selling expense. In the eastern United States the prejudice of those ignorant of present-day methods of farm mortgage banking is very strong against farm mortgage securities, and expresses itself on the finance boards of nearly every large institution, and through the officers of most of the banks, to whom an investor may turn for

advice. The Eastern investor in farm mortgages, therefore, runs counter to the popular investment sentiment in his community, and must have the courage of his own convictions—a quality singularly lacking in investors as a class.

In the West and Middle West, where the security is known, this prejudice is lacking as regards the offerings of mortgage bankers known to be reliable. The business requirement of a high degree of marketability, however, influences the great bulk of institutional investors, especially in the larger centres.

Rarely can the farm mortgage banker find customers in any one community in sufficient numbers to finance an intensive selling campaign through the establishment of a selling office, with a force of salesmen, and aided by liberal appropriations for advertising. The farm mortgage banker, for similar reasons, can seldom afford the large number of travelling salesmen necessary to the thorough canvassing of a State or group of States.

As a result, the majority of farm mortgage banking houses content themselves with a rather haphazard, widely distributed selling effort through the medium of general circularizing and advertising, the sale of mortgages

through local brokers or the securities departments of local banks, and through personal solicitation here and there where business promises to result. If the expenses of these methods were charged by the farm mortgage banker against the profits of the business directly resulting therefrom, we venture to say that a net loss would often be shown. The farm mortgage banker must rely on his volume of accumulated business bringing him steady income from renewals, to carry his expenses, and must charge up the loss on new business secured by publicity, to general expense, in the belief that the aggregate result will compensate, especially as the new business becomes old business and brings revenue from renewals.

We hope the foregoing will make it clear to the investor, especially the Eastern investor, that he cannot judge the merits of the farm mortgage as an investment by the amount of publicity it receives or the amount of systematic solicitation to which he is subject. In fact, rarely will he even receive circulars of farm mortgage offerings unless he has made himself known to some farm mortgage banking house by correspondence, or his name has been sent in by a friend, or there is a local dealer in such mortgages.

In fact, the merits of farm mortgages, especially in the East, are in inverse ratio to their vogue, but if farm mortgage bankers spent in publicity the time and money they now spend in making their securities good, the securities would be bound to suffer.

Many investors are shrewd enough to recognize merit in unfamiliar things, and thus reap the benefit from the purchase of a form of security which gives the investor everything in the way of safety and income, and economizes on mahogany, salaries, and printer's ink.

Many things, however, have contributed to bring the farm mortgage more into the public eye in recent years. This has been chiefly due, probably, to a growing appreciation of the fundamental nature of the security for the farm mortgage, and public notice of the remarkable records of the insurance companies and mortgage companies investing in farm mortgages. Certain financial journals aided in this favorable publicity, both in their columns and by securing the advertisements of farm mortgage banking houses. The agitation for rural credit reform drew attention in many quarters to what was already being done in the farm mortgage business. Farm mortgage bankers, in their desire to take

legitimate advantage of this new interest in their wares, and to protect investors and the business generally from fraudulent practices which always spring up in the wake of a popular movement, formed an Association known as the Farm Mortgage Bankers' Association of America, with headquarters in Chicago. Of this Association we shall speak in a later chapter.

The prospective investor in farm mortgages can readily form a connection with a reliable house by securing the names of the houses in the business, which appear in the current advertisements of the reliable periodicals, and from the directory of members of the Farm Mortgage Bankers' Association of America. After selecting the names of the houses whose statements and fields of operation he prefers, the investor may make his final choice by getting references from the companies in question, and also by making independent investigation through his bank and the banks and commercial agencies in the community where the concern is located. This investigation should aim to determine the financial ability, personal standing, business experience, and record of the company and its managers. Inquiry through personal friends or otherwise in an intimate and confidential

way is desirable in addition to the usual channels, such as banks and commercial agencies. The most satisfactory investigation would be on the ground, or through a personal representative, or through some personal friend who had made such an investigation. Such an investigation is solicited by all reputable mortgage houses, can be made with little or no expense or trouble, and surely is worth while if it assures safety and a maximum income for invested funds over a term of years.

The investor's watchword should be "Investigate." It is the only condition necessary to making the farm mortgage as safe as any investment can be.

# CHAPTER V

## INVESTORS IN FARM MORTGAGES, AND THE RECORD OF THE FARM MORTGAGE AS AN INVESTMENT

SOME reference has been made in the preceding chapters to the various institutional and individual investors which hold farm mortgages for investment. They may be roughly classified as follows:

1. Insurance companies (chiefly life companies).
2. State banks, trust companies, and savings banks.
3. Foreign investors, chiefly mortgage companies.
4. Trustees and estates.
5. Individuals.

In general, the farm mortgage is sought by investors seeking maximum earning power consistent with the preservation of principal. The farm mortgage lacks all speculative attraction, so that it does not interest the investor who hopes

for appreciation of principal, otherwise than through the saving of income, nor is it generally sought by individuals or institutions which wish to keep their funds readily convertible into cash. Discussion of the validity of the position taken by that large class of institutional and individual investors which does not favor farm mortgages is reserved for a later chapter. Suffice it to say here that except for a few noticeable exceptions (e. g., the Hartford Steam Boiler Inspection Company), insurance companies carrying fire, marine, accident, health, and other risks not definitely limited on an actuarial basis, as in the case of life insurance, do not invest in farm mortgages. The national banks of the country are not permitted so to invest except under the special provisions of the recently enacted Federal Reserve Act—a provision of which advantage is only now being gradually taken, and that for the most part in the Middle West. The most important body of investors, however, which does not, generally speaking, favor farm mortgages, is the investing public of the wealthy Eastern States, notably New York and New England.

Of these three large groups of investors, the insurance companies other than the life companies, and the national banks, are under the

limitations of law or the character of their business, which restrict their investments. Of all the reasons for the lack of interest of the third class, however, only one is inherent in the farm mortgage itself as an investment, namely, its lack of speculative attraction. This is undoubtedly an important objection in the mind of the investor who watches the market, and who looks upon his investing somewhat in the light of a game or a business in itself, in which he prefers to take the player's or the business man's risks. But this reason is not the chief influence on that large element in the Eastern investing public which regards the safe investing of its savings as anything but a game or a business venture—but rather as something all important—on which happiness, and even livelihood, often depend, both for the investor and his dependents.

With this class of the investing community, lack of familiarity both with the farm mortgage as a security and with the type of farming community from which it comes, is the chief influence against a greater demand for the farm mortgage. Back of this is a prejudice, usually inherited, born of the losses experienced in the eighties and early nineties in the debentures and

"guaranteed" mortgages of the farm mortgage companies that were the product of that widely speculative era. The actual reasons for the failures and losses that resulted, and the reasons for believing that under no possible combination of circumstances could they be repeated, are of little value as arguments against a prejudice founded on ignorance of the actual facts in the first instance. It would certainly be as reasonable to argue against railroad, or municipal, or corporation securities in general as investments because in 1890 a railroad, or a municipality, or a corporation defaulted, as it is to argue against all farm mortgages of the present day because a certain company dealing in them in 1893 failed to safeguard its clients. Indeed, if the figures were available, it is conceivable they might show that New York and New England have lost far more heavily, both in the aggregate and proportionately, in railroad securities alone than in farm mortgages. This is neither here nor there, and of course has no bearing on the future or prospective value of railroad securities or farm mortgages as a class. The statement is made only by way of explanation of one of the chief factors in the lack of vogue of the farm mortgage among Eastern investors, which

is a constant source of surprise to those familiar with the actual qualities of the present-day farm mortgage as marketed by the reliable farm mortgage banking houses.

The Honorable L. M. Shaw, Secretary of the Treasury under President McKinley's administration, was a banker in the State of Iowa, a prominent agricultural commonwealth in the northern half of the Mississippi Valley, during the time when mortgage companies were first numerous. With regard to credit conditions twenty to thirty years ago in the part of the country mentioned, he says:

"There were a large number of mortgage companies—a thousand or more—who did a farm loan business in the Northwest during the eighties and nineties. Nearly all, perhaps quite all, of them who guaranteed their mortgages failed. Those who did not guarantee their mortgages prospered. The unguaranteed mortgages proved to be much better than those that were guaranteed. The Lombard Investment Company was perhaps the largest of these companies. They had a very wide clientele and could sell anything. They were in many instances imposed upon by their local agents, and, without definite in-

formation covering the wide range of territory in which they loaned, they made some bad loans. When the depression which followed the panic of 1893 occurred they could not meet their interest on guaranteed mortgages.

"There was a crop failure in 1894. Millions of acres of maize in the State of Iowa, not to mention Nebraska, Kansas, and the Dakotas, were never picked. Acres of it did not yield a bushel to the acre. Farmers could not pay their interest, and then the Eastern holders of these mortgages, with customary want of wisdom, put every company into bankruptcy that they possibly could, placed their mortgages in the hands of 'nexperienced Eastern lawyers to foreclose, and sold the land for what they could get. Millions of acres were sold under $10 an acre and are now worth $125. These same people that took these Western mortgages recognize only one error in what they did. They think they were unwise in taking the mortgages. They were wise in taking the mortgages unwise in putting the companies that knew about them into bankruptcy.

"From 1888 to 1892 anybody could organize a mortgage company with or without capital, and float loans, provided that they were guar-

anteed. The best and most conservative purchasers of farm mortgages now will not take one that is guaranteed. They recognize that no guaranty is sufficient in case of real disaster, and that reputation is a sufficient guaranty against any possible error in judgment on the part of the local agents.

"The business was conducted in every way known to man. Mortgages were sold with and without guaranty. Bonds and debentures were issued."

The qualities of the farm mortgage, as the life insurance company and the conservative investor of the Middle West know it, should, if allowed to appeal on their merits to the Eastern investor, attract him. What these qualities are will be discussed in a later chapter. But it seems likely that the vogue which would naturally result from an unprejudiced understanding of the farm mortgage will hardly prevail until that form of security is generally accepted and presented to the public by the same influential channels that have standardized and popularized railroad, public service corporation, and municipal bonds, and other standard types of security that have vogue to-day in the Eastern States. Some of the difficulties in the way of

a profitable business in negotiating farm mortgages have been pointed out in a preceding chapter. These militate against a systematic and adequate plan for putting the farm mortgage before the public, and at the present time no influential group has undertaken what would, once under way, be likely to prove profitable for the promoters and eminently satisfactory in its results in safety and interest return for the investor.

Meanwhile, individuals here and there are investigating for themselves, and the financial departments of the daily and periodical papers, and the financial papers themselves, are giving more and more attention to farm mortgages as an investment likely to be of interest to their readers, with the result that an increasing number of Eastern investors, individual and institutional, are following the lead of the large Eastern life insurance companies in taking up the farm mortgage as one of their favored lines of investment.

Perhaps the most important Eastern group of institutional investors in farm mortgages are the Vermont savings banks, which now hold $45,000,000 of farm mortgages outside of the State. A letter of the Banking Commissioner

of Vermont, recording the experience of these banks in farm mortgages, is reproduced in the Appendix to indicate the satisfaction that comes to the Eastern investor in farm mortgages. One experience after another of this character is likely to make itself felt in a growing appreciation on the part of Eastern investors of the true merits of the farm mortgage, with the result that it is probably safe to prophesy that gradually the East will take its proportionate share of such securities, always allowing for its greater familiarity with and proximity to the great corporations and municipalities which it must continue to finance.

Returning to a consideration of the five classes of investors who now hold the bulk of United States farm mortgages, we find that the life insurance companies hold the largest amount and probably have had the longest experience. The latest compilation of the farm mortgage holdings of the United States life insurance companies placed the total at $695,536,000. The latest reported holdings of some of the leading companies, as well as statements of their experience, appear in the Appendix. For a summary of the experience of the life insurance companies, however, we are fortunate in being able to refer to

the work of the late Dr. Lester W. Zartman, before his untimely death instructor in insurance in Yale University, entitled "The Investments of Life Insurance Companies." (Henry Holt & Company, New York.) We do not know of any equally comprehensive and significant summary of investment experience. Here is not theory or current opinion, but an analysis of the actual experience for more than half a century of what is probably the largest investing group in the world. The shrewdest and the most conservative of investors may well heed the lesson which this experience teaches, for no greater genius and skill, and no more intelligent and systematic investigation and study of investment conditions can be imagined than is brought to bear through the combined directing forces of the great life insurance companies, and no investor can hope to surpass their facilities for safeguarding investments once on their books.

In arriving at his conclusions as to the net earning power over a term of years of the various classes of investments, including bonds, stocks, city and farm mortgages, and real estate held by the companies, Dr. Zartman has been most careful to determine the actual net earning rate after allowing for appreciation or depreciation, losses

or profits, expenses of management of the various classes of assets, etc. As indicating the care used he explains that if any errors have crept into the laborious and intricate calculations they have done so in spite of the fact that "the computation of these rates (investment earnings) by the method adopted required a repetition of the process of finding one annual rate as described on page seventy-two some five thousand times."

Because of the importance of the conclusions, and the care with which they were derived, we feel justified in quoting at some length from Dr. Zartman, with particular reference to real estate mortgage loans. The record of the farm mortgage as distinguished from and surpassing any other of the companies' investments, including city mortgages, both in safety of principal and net earning power, is impressive:

"As the assets (of the life insurance companies) have increased in amount until they have reached a value of hundreds of millions of dollars, the investment side of the business has become one of almost supreme importance."

"The officials in charge of the assets have been required to invest the funds not only so as to

keep them at a *certain market value,* but to make them earn *as high a rate of interest as possible.*"

"The decade of the fifties was one of particularly sound growth in the new business of life insurance." Of the seven largest companies "85 per cent. of the total invested assets consisted of mortgage loans." "The period after 1859 is capable of more extended treatment," because of the establishment of certain state insurance departments. For the purpose of studying their investments, twenty-nine of the leading companies were selected.

Reviewing the decade after the Civil War, Dr. Zartman states: "Mortgage loans continued to increase. . . . So far the companies had found no outlet for their funds so suitable as loans on real estate" (except Government bonds in war time).

Discussing a decrease of mortgage loans from 1875 to 1885, Dr. Zartman says: "The cause of this change in the character of the assets lay in the depreciation of real estate values which set in with especial violence in New York during 1874–5–6. The companies of states which were allowed to invest in mortgages *outside of their own home state* did *not suffer* so quickly from the depression in values as did New York companies which were restricted to New York." "*The Aetna, which had placed a great part of its loans in small amounts on farm property did not suffer much,* but the Connecticut

Mutual, which had loaned large amounts on city property, had quite a different experience. . . . It became the possessor of thirteen million dollars' worth of real estate through foreclosure —five millions in Chicago, three millions in St. Louis, and nearly two millions in Detroit."

"Foreclosure of mortgage loans ceased almost entirely after 1881. Since then the total amount of such loans has increased steadily."

. . . . . . .

"We can conclude with much certainty that some companies do not have as large a proportion of their assets invested in mortgage loans as they should. . . . They possess certain characteristics which make them a good investment for a considerable portion of the funds. Of all the assets having a value little subject to fluctuations, mortgage loans are unexcelled." "The net rate of interest will be found to be equal to that of other securities, in most instances greater."

Recalling that the North America and the Universal Companies failed in the 70's, and that other companies were badly crippled, largely because of loans on New York city mortgages, Dr. Zartman points out that whereas "the early charter provisions show one distinct tendency, viz., to confine the investments to the home state," now "no more than four states confine mortgage loans to the home state of the company." "The tendency, on the whole, has

been to allow the companies a much wider field of investment."

"New York was the pioneer in such legislation (restriction of loans), and yet more than half of the companies organized in that state have become insolvent, and especially is this true of the period when the restrictions upon the investments were the most severe." "If the companies are confined to certain classes of securities, not only will poorer securities in those classes be purchased, than the best in other classes, but the competition for them will be so keen as to drive the rate of interest down." "At the same time, officers of insurance companies may feel that they have done their duty to the investments when they have not overstepped the boundaries set for them by law, when in fact they could have done much better toward getting safer and more remunerative assets." "A right sense of responsibility intelligently applied is better than legal enactment."

Summing up the subject of investment earnings, Dr. Zartman finds that "those companies which have large mortgage holdings are on the whole making the best rate of interest." Dr. Zartman's method of computing net income return on invested assets is to deduct all losses, add all profits from appreciation, and deduct the expense of making the investments. On this absolutely fair basis he finds that the Union Central Life, which invests a larger proportion of its assets in farm mortgage loans than any other

company, is "the only company that has succeeded in earning steadily 6 per cent."

"What is contended for is that the managers of a company should not be satisfied with the easy method of investing their funds." "Good investments must be sought with the same zeal that policy holders are sought after. Investments must be found which combine a high element of safety with a high element of earning power."

This testimony effectually disposes of the arguments so trite, but so often opposed by Eastern investors to farm mortgage investments, such, as for example, "they are too far away," "require too much care," "my father lost money in them in 1893," "they may be all right for small investors but they are too inconvenient for the large investor," etc., etc.

Insurance companies have no monopoly of the good farm mortgages, and other investors may buy from the same farm mortgage houses as do the insurance companies, enjoy the same service, giving convenience, safety, and liberal interest yields, and may invest on a moment's notice $500 or $500,000 and more.

Additional testimony of the insurance companies appears in the Appendix.

The second great class of farm mortgage in-

vestors includes the State banks, savings banks, and trust companies. Except in Vermont and, to a limited extent, New Hampshire, there is little investment of this character by the banks and trust companies of the Northeastern States, chiefly for the reasons above described, and less directly because the laws of New York, Massachusetts, and other States forbid investment to a greater or less extent in mortgages on real estate outside of the State in question.

Throughout the country, outside of the Northeastern States, however, farm mortgages constitute a part of the assets of a majority of the well-managed State institutions, and are regarded by the public and the State banking officials, as well as by the officers of the banks, as one of their most desirable lines of investment. In the aggregate, such banks are estimated to hold for their own investment $739,500,000 and to have negotiated for customers outstanding loans aggregating $486,000,000.

There has been much testimony from bank officers in the Western and Southern States to the desirability of farm mortgages as investments for such institutions, as being less subject to depreciation than long-term or non-maturing bonds or stocks, and as commanding more of the

confidence of their customers in times of stress. Many bankers stated after the panic of 1907 that their farm mortgages were the best assets they had, not only in sustained earning power but in convertibility, especially in their own communities. The former quality is generally admitted, but the latter has not been claimed as a rule by the most ardent advocate of the farm mortgage. We do know, however, that more investors turned to farm mortgages during the financial uncertainties in the early months of the European war than ever before.

In their report on a bill to permit national banks to loan on farm mortgages, the majority of the House Committee on Banking and Currency in 1906 reported, among other considerations in favor of the bill, that "All State banks are permitted to make loans on real estate [the bill referred to farm real estate alone], and most, if not all, States permit their banks to loan any part or all of their capital or surplus on real estate and *the record of a State bank failing from this cause is exceedingly rare.*"

In commenting on the bill the president of the Northwestern National Bank of Minneapolis (one of the leading banks of the Northwest) said:

"Those who most strongly approve the proposed amendment to the National Banking Act, allowing national banks to loan on real estate, must concede that the value of paper properly secured by mortgage on real estate is unquestioned, so that doubt as to safety of such loans may be eliminated from the argument.

"We have written letters to the banking departments of the various States in which we have asked these questions: First, whether the State banks were allowed to loan on real estate? Second, if there have been any failures of State banks due to real estate loans? Third, if so, how many? To the first question every reply received was in the affirmative. And to the second not a single instance of failure due to real estate loans was noted."

The above will suffice to show the standing of the farm mortgage as a bank investment in the greater part of the country, but as a matter of interest additional evidence appears in the Appendix.

For more than thirty years United States and Canadian farm mortgages have been a favored investment of British, French, and Dutch investors, chiefly through the medium of companies organized in those countries which

negotiate their mortgages in much the same way as the insurance companies, and finance them by selling debentures or bonds issued against the general credit of the companies, or against the security of the mortgages deposited with a trustee, in which latter case the debentures are usually also the direct obligation of the negotiating company.

In Canada there are many companies doing this business, whose market for their debentures is almost wholly in Great Britain, France, and Holland, and although the business has been conducted on these lines for nearly half a century, no such company has ever defaulted to the public on its bonds. A summary of the experience of the Canadian mortgage companies appears in the Appendix.

It is estimated that the total investment of foreign funds in these securities exceeds $500,000,000, almost as much as the total held by the United States life insurance companies.

The experience of the fourth and fifth classes of investors in farm loans, including trust estates and individuals, cannot be so definitely estimated, although it embraces a larger aggregate investment than that of either of the preceding classes, or more than half of the total of

$3,500,000,000 farm mortgages estimated to be outstanding in the United States. It would be impossible to generalize regarding it except to state that from the experience of the insurance companies and banks it might safely be inferred that individual investments in farm mortgages, where made with equal care, would be found to have been equally satisfactory.

Of course many individuals place their loans direct in their own communities, and in most such cases have not the advantage of skill and experience in negotiating them or of an organization equipped to care for the investment once made, and we have seen that the farm mortgage requires both to give certainty of security and regularity of income. The farm mortgage is not unique among investment securities in this requirement. Investors buy other securities, as a rule, from experienced and reliable investment bankers—why not farm mortgages? The fact remains, however, that because of the simplicity of the elements of the real estate mortgage as an investment, and because such mortgages are usually in denominations convenient for individual investment, as well as for other familiar reasons, a very large part of the investing in real estate mortgages, including farm mortgages, is

the result of direct negotiations between investor and mortgagor.

For that reason, the record of the investment in the hands of individual investors is subject to all the vicissitudes of individual capacity or the lack of it, and one man's experience is no criterion of what will be his neighbor's. It is only as we examine the record of the farm mortgage as negotiated by the experienced and trustworthy farm mortgage banking houses, or bankers, that we can fairly compare that record with the record of institutional investments in farm mortgages, or the great body of investments outside of the farm mortgage.

Farm mortgage banking houses of the type referred to have made a most enviable record for themselves and for the farm mortgage as an investment. The writer calls to mind more than one house having over fifty years of business behind them, continuously negotiating and selling farm mortgages to their customers, without the loss of a single dollar of either principal or interest for any customer. The aggregate negotiations have been hundreds of millions of dollars. Most of the leading houses in the business today have records of a quarter of a century, more or less, of equal satisfaction to themselves and

their clients. We have quoted a few of these records in the Appendix, omitting the names of the concerns for obvious considerations. The reasons why such records are possible, and even probable, in the farm mortgage banking business, have been pointed out in a previous chapter. That the record of the farm mortgage is in this respect unique may easily be ascertained by asking any house dealing in any other kind of securities what loss their customers have suffered from securities sold them through that house in a period of fifty or forty or thirty or even ten years. The answer will not necessarily reflect discredit on the house, even if startling. It will probably be entirely due to conditions beyond the control of the selling house.

The cardinal strong point for the investor to remember is that the modern farm mortgage never gets beyond the control of the negotiating house, and his only concern is to assure himself that the house with which he deals is experienced and personally and financially responsible, with an established record for taking care of its clients.

# CHAPTER VI

## THE QUALITIES OF THE FARM MORTGAGE AS AN INVESTMENT

Mr. Lawrence Chamberlain, in his book, "The Principles of Bond Investment," well defines the problem of the investor in determining what qualities to seek in his investments, when he says (Page 27, Chapter III), "There are numerous desirable qualities to be sought in an investment, but, to a certain extent, they conflict with one another. It is for an investor to determine what are his essential needs, and then seek an investment in which the qualities are most prominent which coincide with his needs. He should then be content with whatever degrees of the other qualities he can obtain."

Mr. Chamberlain defines the elements of a hypothetical "ideal investment" as follows:

1. "Security of Principal."
2. "Stability of Income."
3. "Fair Income Return."

4. "Marketability."
5. "Value as Collateral."
6. "Tax Exemption."
7. "Exemption from Care."
8. "Acceptable Duration."
9. "Potential Appreciation."
10. "Acceptable Denomination."

Probably the first three of these qualities would be considered of paramount importance by every true investor, as distinguished from the speculator. The relative importance of the other seven qualities would depend on the needs of the individual.

The discussion of the farm mortgage with reference to these qualities is based on the assumption that the investment in such mortgages is made through a farm mortgage banking house of standing. Otherwise the degree in which these qualities would be realized would depend so largely on the investor, as not to have any bearing, necessarily, on the qualities of the farm mortgage considered as a standardized type of investment.

That the farm mortgage is purchased through such a farm mortgage banking house implies that the investor, having made the purchase, holds documents that are in order and sufficient to

make him the indisputable holder of a first lien, for the full amount invested, on improved farm land, to which the mortgagor has indefeasible title as evidenced by a policy of title guaranty or adequate search of title by experts. Farm mortgage bankers usually give a written guarantee that the mortgage is a first lien and that the borrower has a merchantable title. It is further implied that the farm land mortgaged is not worth less than double the amount of the investment.

Some of the very numerous technical qualifications of standard farm mortgage loans have been outlined in a previous chapter.

### I. SECURITY OF PRINCIPAL

The security for the farm mortgage is primarily land—farm land, with all the characteristics that the word farm, as applied to land, implies. As the late Mr. James J. Hill pointed out, farm land is the only source of wealth which has within itself the quality of perpetuity. It is not only perpetual—it is imperishable. It may be safely asserted that no other form of security is either perpetual or imperishable. And it may also be asserted with truth that inasmuch as farm land produces the essentials of human

existence and human activity, it is the foundation of all security. There would be no security in railroads, or municipalities, or public service corporations, or manufactures, if the farm lands of the country were to fail either to exist or to produce. Since the first demand on the product of farm land is to support the producer on the farm (the farmer) and the next demand is to pay his taxes and his debts, it will be clear that there can be no surplus for the support of the great non-agricultural part of the population without providing for the payment of the farmer's primary debts, first in importance of which is his mortgage principal and interest. Without such a surplus there would be no cities, transportation, manufactures, or other bases of security.

The farm mortgage, taken as a whole, is the fundamental investment, a prerequisite of every other investment, and just as important and secure as its position implies. The only requirement of safety is to buy farm mortgages negotiated in such a way that they give the investor those qualities inherent in the farm mortgage as a type of security.

Some of the obvious advantages in point of security of such farm mortgages in addition to

the perpetual and imperishable quality of the basis for the security, viz., the land, may be pointed out.

*a*. They finance the oldest and most staple business known to man—the one business that has been conducted along substantially the same lines since the dawn of creation. Every advance in civilization has advanced the business—no upheaval or change has permanently impaired it. Its products are in constantly greater demand as the population of the world increases.

*b*. Farm land itself, being in fixed supply, remains in a constantly declining proportion to the demand for its products. Farm land is the one basis of security that by its very nature cannot fail to advance in value—constantly, inevitably increasing the margin of security behind the farm mortgage. This statement is in no wise controverted by the fact that values in any given section may be lower or higher than the normal level of lands similar in productivity and the other factors of value. There is a constant process of equalization going on, which brings values down, at least for a period, in certain localities, and forces them up in others, where they are out of line with the general level. But the constant factor of appreciation remains, even

if depressed or exaggerated by local conditions.

*c.* The farmer as a debtor is more independent of vicissitudes beyond his control than any other borrower, corporate or individual. Sole proprietor of his own "plant," furnishing in most cases the greater part of the labor himself, or with the aid of his family, he is less subject to exorbitant labor cost or interruptions of production through strikes or varying labor supply than other business men. Controlling as a class the balance of power politically, he is peculiarly free from legislative handicaps. Independent of others with respect to the raw materials of production, he is freer than other business men from difficulties and losses arising from his dealings with others. His markets are world-wide and constant—more staple than all others, despite fluctuations in individual farm products. Even the weather, responsible as it is for most of the farmers' worries, follows the law of averages over a term of years with remarkable fidelity.

*d.* Farming as a business is more universally successful than other businesses. The fact that so many millions of farmers are to-day independent proprietors, paying their debts and making a living, is sufficient evidence that in no

other business is the percentage of success so high. It is true that many farmers because of inferior ability or methods do not derive from the year's operations more than a living and a meagre interest return on the value of their farms, and still remain apparently solvent. The rapid advance in land values has been such as to make many farmers, especially in the Middle West, content with a net income of 3 per cent. or 4 per cent. on the present worth of their land without any labor income. On the other hand, even the tenant on these same high-priced lands, we venture to assert from our own observation, makes a better living with the same expenditure of labor and intelligence than the city dweller. And we are strongly of the opinion that equal degrees of industry, economy, and intelligent planning produce more in the way of comfortable living and a competence for the future, in farming than in any other of the great groups of occupations. And it may be added here that one of the requisites of a satisfactory loaning field is that it shall be a locality where the farmer of not more than average qualities is usually successful.

*e.* Granted the above contention that farming as an occupation yields a higher average

of successful independent proprietors than any other business, nevertheless, farm mortgage financing is less dependent for its safety on the financial success of the borrower than probably any other financing. The moral hazard, that is, the quality of the management in integrity and ability, is vital to safety in financing a railway, a factory, or even a city or political state. It is not vital to safety in farm financing, even though careful farm mortgage bankers pay much attention to it, for the principle of sound farm mortgage banking is that the loan shall not exceed one-half the value of the land alone, even though the farm be abandoned, the improvements destroyed, and the land reduced practically to its primitive state. No other basis of security could under such conditions yield more than a fraction of what would be considered its true value as a basis for financing, for all other bases of security for financing—railways, public service corporations, industrial plants, etc.—are valued as going concerns. If allowed by poor or dishonest management to depreciate and fail to earn even their fixed charges, they will by that time have ceased to have a market value commensurate with their previous value on a basis of earning power, and the security holder must

needs step in to reorganize the business through the intermediary of a "protective committee," usually at his own expense, in proportion to his holdings, rather than to acquire title to and sell the security to satisfy the debt. The actual distinction between the courses open to the farm mortgage investor and to the investor in mortgage bonds based on other security is none the less because the reorganization process may involve a sale of the security under foreclosure. In the case of the farm mortgage holder, the sale is to a third party, for cash to liquidate the debt. In the case of foreclosure sales under mortgages on other forms of security—railways, public service properties, industrial plants, etc.—the sale is almost always to the bondholders themselves, to enable them to rehabilitate the property under their own management.

The farm as a basis of financing, on the contrary, is by itself, and entirely apart from its earning power in the hands of the borrower, sufficient security for the investment, and if the moral hazard fails, the farm is saleable as a "non-going concern," simply as so much land, for more than enough to extinguish the debt.

The weakness of human nature makes dependability on the moral hazard so uncertain that

the unique quality of being independent of the moral hazard is an impressive advantage of the farm mortgage.

*f.* An important accompaniment of this independence of the moral hazard is independence on the part of the investor in the control of his security. The farm mortgage as ordinarily negotiated in this country varies in amount from, say, $500, to a maximum seldom exceeded of perhaps $20,000. These small denominations make it practicable for the investor to acquire the entire mortgage, not merely an interest in a mortgage, represented as such an interest usually is in the case of a mortgage on a railway or factory, by a bond. The investor in a farm mortgage, by advancing the entire amount of the loan himself, acquires sole control of the security, without the intermediary of a trustee to hold the security. There is little to commend this independence of control over the divided control involved in the purchase of a $1,000 bond of an issue of $5,000,000 unless the borrower defaults. But if there is default, investors of wide experience know the disadvantage of having to pool their interest with all the others interested in the same security, compelling the subordination of their will and interests to the interests

of the majority holders, which may or may not be akin to theirs, depending on whether the majority are holders of other interests in the same security, which latter may make it to their interest to compromise the obligation. This conflict of interest between the holders of interests represented by the bonds of various classes based on the same security is well illustrated in some recent railway reorganizations. The individual bondholder must put his interests entirely in the hands of a committee which may or may not disinterestedly serve him, and must pay assessments for the support of this committee which he cannot recover from the borrower. Such reorganization assessments are a net loss to him, to be suffered in addition to the delay in collecting his principal and interest.

The statement made above, so amply borne out by the investment history of the United States, is introduced not by way of argument against the safety of bond investments in general, but simply to point out the practical advantage to the investor of having sole control of the security for his investment. Having this control, as the holder of a farm mortgage, he can in case of default promptly foreclose on the security, and having secured possession of

it, he can sell it, with a first claim on the proceeds of the sale, for not only the amount of his investment and interest thereon, but also for all the costs of the action. He is not called upon to lose, and, if his mortgage was properly placed, will not lose, a cent.

It is probably safe to say that no single advantage of the farm mortgage as an investment attracts experienced investors more than an assurance of the return of his entire investment and interest. By purchasing his mortgages of the best farm mortgage bankers, the investor always has control of his security with the potential privilege of independent action, with the additional advantage that, in practice, the farm mortgage banker, knowing the debt to be so completely and readily recoverable, in case of default, usually relieves the investor of a defaulting mortgage at its face value. There are very few exceptions to this practice.

*g.* The fact that the farm mortgage is small in amount not only gives the investor the advantage of being able to control the security, but also of being able to widely diversify his risk within the same class of investment. The investor in one hundred farm mortgages would not have better than ordinary success if only one out

of the hundred defaulted, and with the power of recovery through foreclosure, the chances of loss are still further minimized. It has already been pointed out in a previous chapter how fully the prominent farm mortgage houses have given the benefit of this diversification to their clients by themselves taking advantage of the power it gives them of protecting their clients against all loss whatever, or even delays in the payment of interest and principal. To no other investment could this protection be afforded, because the farm mortgage alone affords sufficient diversification of risk and certainty of recovery to be practically an insurable risk as based on the experience of half a century.

There are many other factors for safety in the farm mortgage, but we trust sufficient has been written to show the preëminent position of the farm mortgage among investments in the matter of "Security of Principal."

### 2. STABILITY OF INCOME

By this phrase Mr. Chamberlain describes that quality of an investment which assures the investor of a fixed rate of interest on his investment, promptly forthcoming on the dates set forth in the terms of the documents. It is a

quality especially important to the investor dependent for his living or part of it upon the income from his invested funds. Obviously a delay in the payment of interest in such cases might be of the greatest seriousness.

In this quality, the real estate mortgage, as ordinarily known in this country, and usually the obligation of an individual borrower, is deficient as compared with bonds, which are usually the obligation of a corporation with business sense, valuing its credit, and realizing the danger to its credit, and even to its solvency, of defaulting on its interest. As a rule a bond of such a borrower—railway, industrial, public service corporation or municipality—pays its interest promptly, unless there is complete collapse of the solvency of the borrower. The individual borrower on real estate mortgage, however, is like the individual in any other capacity—he may or may not be of good business training, with regard for meeting his obligations on the date due and with sufficient forethought to provide for those obligations. As a result of these shortcomings of the individual, the lender on real estate, who deals direct with the borrower, assumes the risk that in a certain number of instances he will have to wait for his

interest, and not infrequently have to deal with baffling cases where it is hard to draw the line between harshness and proper measures to preserve his rights. These personal dealings, necessarily annoying, and wasteful of time and patience, constitute the chief objection to real estate mortgages—both city and farm—in the eyes of many investors. They appreciate the many merits of real estate mortgages, but feel that without an organization to deal with the business, they cannot afford to assume the risk of delays, personal inconvenience, and possible loss through the omission of some little detail affecting the investment. The writer feels very sympathetic with this objection, as it is a very real one if the investor tries to deal direct with the borrower. In such mortgages the quality of "stability of income" is too often lacking.

In the case of farm mortgages, negotiated by well-equipped, financially sound farm mortgage bankers, this objection is entirely eliminated because of the willingness of such companies, for their own convenience as well as that of the investor, to advance interest wherever necessary to put it into the investor's hands promptly. Such companies have adopted the uniform practice of sending their own checks to their cus-

tomers to cover all interest payments when due. The banking house reimburses itself for these advances through its collections from the borrowers and loses nothing by the operation, since the delinquent items carry interest so long as they remain unpaid. No investment offers greater "Stability of Income" than the farm mortgage purchased from such farm mortgage banking houses.

### 3. FAIR INCOME RETURN

Perhaps none of the qualities enumerated is more difficult of definition than this. What is "Fair?" And yet every investor answers this question affirmatively when he invests, whether in a U. S. Government bond to yield less than 3 per cent. or in an industrial stock that at the moment of purchase may be on a 15 per cent. income basis. "Fair income return" is obviously a purely relative quality—relative to all the qualities mentioned in this chapter and to the law of supply and demand with reference to these qualities and others.

For example, the bonds of the cities of Massachusetts yield less than those of probably any other State in the country because they are exempt from the personal property tax in

Massachusetts, and, therefore, are attractive to Massachusetts investors on a basis of income return, that investors resident in other States would not consider "fair" for them, because they do not require the *tax-exempt* feature, and can get equally *safe* bonds in other States.

For another example, the bonds of the small towns and school districts of New York State pay less interest than those of other States, probably, because they are legal investments for the savings banks and trust funds of New York State. The return on such bonds would not be considered a "fair" one by any investor not requiring legality in New York State for trust funds as one of the qualities of his investments, because bonds possessing in just as great degree all the other desirable qualities can be had to yield more.

For still another example, the return on the most active railway bonds may be "fair" in the eyes of an investor who must have convertibility in his investments above all else except safety, or even above safety, whereas it would be hardly considered "fair" by the investor for whom convertibility is a secondary consideration.

What is "fair" depends on what the investor demands, and therefore is not subject to univer-

sal definition. If the qualities of security and stability of income, of exemption from care and acceptable duration, be accepted as most important, as they undoubtedly are for all purposes of pure investment, not involved with speculative interest and the special requirements of the individual, we believe it safe to assert that no investment ranks higher than the farm mortgage as defined in these chapters. At the present time few such mortgages are offered to yield the investor less than 5 per cent., large supplies are offered to yield $5\frac{1}{2}$ and 6 per cent., and in some few localities, and in comparatively small supply, they can be had to yield 7 per cent. The difference in interest rate is accounted for chiefly by the varying degrees of popularity with investors of the various loaning fields from which the mortgages come. Not only intrinsic qualities, but time and sentiment are factors in this, and a fuller discussion will be reserved for a later chapter.

Investors who confine their holdings to true investment securities quite universally testify that their farm mortgages yield a larger net revenue than any other of their investments. That this is notably true of the insurance companies has been brought out in a preceding

chapter, in the quotations from Dr. Zartman's book. The insurance company holding the largest volume of farm mortgages, over $100,000,000, writes: "In our experience we have found loans secured by mortgages upon farms the most satisfactory of all investments," and it is a well-known fact that the insurance companies investing in farm mortgages derive a higher net revenue from such investments than from any other. Abundant evidence of this appears in the analyses of the investment experience of the insurance companies appearing in the Appendix.

In short, investment experience, wherever related, with reference to a diversified investment policy over a long term of years, seems to establish the fact that in the qualities of "Security of Principal," "Stability of Income," and "Fair Income Return" the farm mortgage is unrivalled. It is for each investor to say whether this is a sufficient recommendation to offset a lesser degree of some of the other qualities referred to below.

### 4. MARKETABILITY—5. VALUE AS COLLATERAL

We group these as qualities largely related to each other.

Farm mortgages are not marketable in the sense that the well-known issues of bonds are marketable—in blocks of $50,000 or $100,000, or even $1,000,000 on a day's notice and at a price—we say, at a price, because the quality of marketability by no means implies that the investor will not have to take a loss when he sells. He sells at the market, and the market may be higher or lower than when he purchased. The quality of marketability is convertibility into cash on short notice at the market, and as Mr. Chamberlain says, "The size of a security issue, and the character of the demand for it, have more to do with its marketability than the intrinsic worth of it."

Marketability is a quality highly desirable in a due proportion of the assets of institutions and individuals who may, by virtue of the conditions surrounding their business, be called upon suddenly for large amounts of cash, and of course it is required by the semi-speculator, semi-investor, who buys investment securities with an eye to getting in and out of them at every turn of the market. For the non-speculative investor for income and accumulation of principal, marketability is a costly and superfluous quality, for as Mr. Chamberlain also says, "the

price of convertibility is lessened income," and "most bond buyers demand a higher degree of marketability than they really need."

Such a degree of marketability as is required by the great bulk of genuine investors is possessed by the farm mortgage—nearly every prominent farm mortgage banking house will repurchase in small blocks for a nominal handling charge any mortgages negotiated by it, thus making readily available a reasonable amount of cash without any loss in principal. Another quality of farm mortgages important in this connection is their self-liquidating character, because of their short term. An investor by judiciously arranging his investments in farm mortgages may provide for the maturity every year of a fifth of his investments of that character, thus giving him the opportunity of rearranging his investments to that extent, if a change in conditions warrants it, or the use of the money for other purposes if desired. Here again the service of the farm mortgage banking house is important. The individual maker of a mortgage may not be in position to pay it off at maturity, when the holder wants the proceeds, and if it were not for the service of the banking house the investor might not be able to realize without annoying

delays. The farm mortgage banking house, however, in such a case at once takes up the mortgage from the investor, if he so wishes, and replaces the renewal with some other customer.

Thus the farm mortgage becomes a genuinely self-liquidating investment, an advantage that few investors appreciate at its full value.

Should the holder of farm mortgages wish to borrow on his mortgages as collateral, he would find the banks, especially in the East, less accommodating than they would be if he offered them bonds of a high degree of marketability, for the obvious reason that in case of his default, the latter could be at once sold to satisfy the debt. There is no implied doubt of the security for the farm mortgage in their attitude. The investor who borrows on farm mortgages, like the investor who wishes to sell them, must be content with a moderate degree of availability chiefly through the negotiating farm mortgage banking house, or banks satisfied with his note primarily rather than the collateral offered.

### 6. TAX-EXEMPTION

This quality does not, so far as we are aware, attach to farm mortgages as a class in any jurisdiction, but mortgages on farms in several States

are exempt from taxation within the States where they are located. In other respects, farm mortgages are in a class with other securities generally, enjoying no special privilege of exemption from tax as personal property or as the source of income.

### 7. EXEMPTION FROM CARE

No investment can give the investor less concern or care throughout its term than the farm mortgage, as negotiated by the leading farm mortgage banking houses. The service of these houses has been described at length in a preceding chapter. The farm mortgage may be even more convenient than a "bearer bond," for if without coupons, as in the case of Canadian farm mortgages, it may be put away and left undisturbed to maturity, the investor receiving his interest regularly on the date when due without even the trouble of clipping coupons. And even if the mortgage note carries coupons, the Federal Income Tax is not collectible at the source on them, unless the interest coupon exceeds $3,000 on any one mortgage in a year, so that no "ownership certificates" need be filed in connection with farm mortgage coupons.

As farm mortgages are ordinarily dealt with

between the investor and the responsible farm mortgage houses, the papers are transferred to the investor, but the assignment or transfer of mortgage is not recorded, so that if it is desired to reassign or discharge the mortgage, it can be done by the company for the investor without even the trouble of executing the document or going before a notary.

Of course, since a fraudulent transfer or discharge might be issued after the papers had passed to the investor, and, when recorded, vitiate the investor's security, some investors do not rely to this extent on the good faith of the negotiating companies, but place all assignments on record. All necessity for this precaution would be wholly eliminated if the recording officers would insist on the production of the mortgage itself whenever called upon to record a transfer or discharge. This is now a successful practice of the Registrars of Land Titles under the Torrens System in some of the Western Canadian Provinces. Perhaps it should be added that no system has been devised that will completely protect against forgery.

Under the system of negotiation above referred to farm mortgages are as convenient to hold and can be as readily transferred as a

registered bond, and being payable to the rightful owner only, and not to bearer, obviate the risk of theft or loss.

## 8. ACCEPTABLE DURATION

In a world of rapid change in all that affects the security for investment, an opportunity at frequent intervals to reappraise the security for an investment, and to demand payment, or renew the investment at the investor's own terms, is no small advantage. This advantage no class of securities affords to a greater extent than farm mortgages, varying in term from three to seven years, at the longest. As Mr. Chamberlain remarks: "Some issues of bonds run well into the twenty-first century. From the standpoint of present generations they are hardly more available in theory than perpetual loans. As loans their liquidation value (security apart) is dependent upon the current rates for money, rather than upon the fact that at some future time 100 per cent. of their face value must be repaid for them. The shorter the life of the loan, the more surely does the face value govern the current value."

The practical working out of the advantage of the short-term farm mortgage investment is

especially marked in the case of the life insurance companies, and other institutional investors, in relieving them of the necessity of revaluing their securities of this class whenever they make up their statements, and writing off large amounts to depreciation as they so often have to in the case of long-term securities held through a period of high interest returns and low security prices.

The objection that the short term of farm mortgage investments is inconvenient as necessitating frequent reinvestment is not a serious one if the investor enjoys the service of the well-equipped farm mortgage banking house, which carries on hand for sale at all times a stock of completed loans in various denominations in which the proceeds of loans paid off can invariably be reinvested without inconvenience and without lapse of interest.

### 9. POTENTIAL APPRECIATION

To this we would add the corollary, possible *depreciation*—the possibility of one presupposes the possibility of the other, and in all investments which, because of their long term and marketability, are quoted in the market at prices fluctuating with the trend of things, there

is for the investor the possibility of a profit through a sale of the investment at an enhanced price and also the possibility that, should he wish to liquidate his investment at any time, before maturity, he may have to take a loss. Such a quality in investment is essentially speculative. The farm mortgage is essentially non-speculative. Its selling value in liquidation is in actual practice largely controlled by the house negotiating it, and is never below par, except for a nominal brokerage. Any marked depreciation would be improbable in view of the short term, a trifling discount showing a large increase in net yield. On the other hand, the short term and lack of marketability limit appreciation. The farm mortgage is chiefly valuable in this relation for its freedom from all speculative possibilities. It is, in actual practice, always worth par—100 cents on the dollar—and is always so inventoried among the assets of insurance and banking institutions, estates and individuals. It is unique among investments in this feature of stability and convenience.

It may be repeated here, however, that although there is in the farm mortgage no possibility of appreciation in the value of the investment to the profit of the investor, there is a

continuous appreciation of the security for a well-placed farm mortgage, so that, at maturity, the investment should have even more security behind it than when negotiated. Although this does not bring the investor a return in profit, it is of utmost importance in assuring him that he can recover his principal if he chooses.

### 10. ACCEPTABLE DENOMINATION

Ordinarily, in case of real estate mortgages, this quality is lacking. The farm mortgage banking house, however, by carrying on hand at all times a large stock of completed loans, can practically always supply an investor with any denomination desired, either in a single loan or with loans in combination. Odd amounts can be suited in this way even better than with any security except $100 bonds. And even the needs of the investor with $100 to invest have been met by many houses through the issuance of bonds or participation certificates representing a part interest in one or more large mortgages. Through the service of the farm mortgage banking houses the investor may invest any sum from $100 upward, buying his mortgages in completed form "over the counter," and not waiting to find a suitable mortgage, as would be

the case if he depended on his own efforts to find the borrower and negotiate the loan himself. This service of the farm mortgage banking house here again makes not only for convenience but for a marked saving of interest by making it unnecessary to hold funds uninvested.

# CHAPTER VII

## ESSENTIAL DIFFERENCES BETWEEN MORTGAGES ON FARMS AND MORTGAGES ON URBAN REAL ESTATE

COMPARISON of the farm mortgage with other investments has been purposely avoided in this Handbook, except so far as such comparison is considered necessary in order to effectively emphasize certain qualities of the farm mortgage. We feel that this necessity exists with regard to mortgages on town or city property as compared with farm mortgages, for the reason that these two classes of investments are so often grouped in investment thought and practice under the single head of real estate mortgages, and in the popular mind, the merits and demerits of both are often confused.

The popular idea seems to be that urban mortgages and farm mortgages are practically identical as to intrinsic qualities, and that preference in the mind of the investor for one or the other is largely a matter of chance or personal

considerations—that the New York City investor prefers New York City mortgages because he is personally familiar with New York City property, and that the well-to-do Illinois farmer prefers Illinois farm mortgages because he personally knows their merit. It is true that the investor's choice between urban mortgages and farm mortgages is very often based on the accident of environment and individual experience. It should not be inferred, however, that there is no fundamental intrinsic difference between the farm mortgage and the urban mortgage as an investment, even assuming that both are negotiated by mortgage bankers of the class that strives for the qualities of an ideal investment as far as those qualities can be secured in mortgages by skill and care in their negotiations. The fundamental and vital difference is in the nature of the Security for the Principal, the first and most important quality discussed in Chapter V. This directly affects Stability of Income, the second most important quality.

To insure security of principal and stability of income, the physical security for the mortgage must be not only *sufficient* when the loan is made but must also be permanent. By permanent

we mean that the security must not have within itself elements that will permit of its depreciation to less than the investment predicated upon it. We have seen that a unique advantage of the farm mortgage is its independence of the moral hazard, and its reliance on the physical security. The mortgage based on physical security which *may* depreciate for any reason whatever, and particularly for reasons having to do with the moral hazard or human agencies of any kind, fails in the chief and most fundamental factor for safety.

It is here that the urban mortgage most frequently suffers by comparison with the farm mortgage. We fully realize that the experience of very many large and competent investors will seem to contradict this contention, and that a debate on this question would be a difficult one for the judges to decide if they allowed their decision to be swayed by the pragmatic test—by comparisons of individual experiences only, and not by a comprehensive analysis of all the factors in the security for the farm mortgage as compared with all the factors in the security for the urban mortgage. A great deal of confusion of thought on this subject would be avoided if prejudice and those con-

siderations which are irrelevant could be eliminated. For example, no individual experience, even if it be a man's own or that of his grandfather, is a conclusive test. The errors of an entire group of farm mortgage companies in the early days of the business in this country have no more bearing on the real merits of the farm mortgage as such than have the wholesale railroad receiverships of the '90's on the security of railway bonds to-day. Both have a bearing only as showing how abuses may disguise or destroy the true character of a security. To apply a true test to the permanence of a security we must start with the assumption that the security is there in the first place, and then determine in what respects that security may fail to be maintained.

The security for the urban mortgage reveals certain inherent weaknesses as regards permanence, among which the following are perhaps the most familiar to large lenders on urban properties.

1. Real estate has value only as it produces or can produce revenue. Revenue from urban real estate cannot come from the cultivation of the land but must come from the use of the improvements—the buildings thereon. Buildings

of any kind inevitably depreciate, so that the element of depreciation is inherent in that part of the security for an urban mortgage, and it is beside the point to say that appreciation in the value of the land may offset the depreciation in the buildings.

Depreciation of buildings may be confined to the depreciation due to use, obsolescence, and decay, or it may involve total or partial destruction by the elements—fire, flood, and wind—or by riot or war. Insurance may wholly or partially protect against the more imminent of these risks, like fire, but in that case, the investor's reliance is to that extent transferred from the security itself to the insurer.

2. Urban real estate, to realize its value, must be appropriately, or suitably, improved. No man in his senses would build an office building on a $1,000 lot in the suburbs, nor would the owner of the most valuable corner in town so far fail to take advantage of his opportunity as to put up an eight-room cottage on it. The building should fit the land on which it is built. The valuable land in the retail district will ideally be so improved as to get the full advantage of its location, and the low-priced building lot in an inferior residence section will not advantageously

carry a $50,000 mansion. These are the extremes, and are obvious. But between these extremes there are lurking dangers often entirely unforeseen at the time the loans are made.

Those who built the massive stone office buildings of the '70's and '80's at heavy expense did not foresee that they would be superseded by the modern fireproof steel skyscraper with all its modern conveniences. Nevertheless, in many cases the owners of the land on which these older buildings stand would be better off if the buildings could be wiped out by some magic process—they are less than valueless. As security for mortgages, however, they were at one time regarded as gilt-edged.

Every one is familiar with those forlorn districts in every city where business has encroached on a formerly favored residence section, rendering the fine residences of no value for their former purpose and leaving them a dead weight on the owner's hands to be rented as boarding-houses, or abandoned until the business section includes them, and makes it worth while to tear them down. They have wholly lost their value as security, and during the transition period are an encumbrance on

the land rather than a productive improvement.

Hardly less familiar is the depreciation in value of business structures—stores, offices, etc. —when the popular business section shifts. In New York the retail section moves uptown, leaving expensive retail structures a burden on the owners. In Minneapolis or Kansas City the office building section moves over a few blocks and offices in what were once the best office buildings in the city cannot be rented.

The circumstances, bringing about these shifts and changes, are as varied and many as are the towns where they exist, but every one knows such commonplace reasons for shifting values as the whim of fashion, convenience to new transportation facilities, the coming in of elements distasteful to the existing residents, such as saloons, stores, apartments, factories, etc., the change in location of public buildings—city halls, libraries, schools, etc.—the increase of smoke and traffic in certain sections as a city grows. These are only a few of the many unforeseen and unforeseeable factors in the value of urban real estate, so that the element of permanence is obviously lacking not only in the physical structure of the improvements, and in

their value for the use for which they were constructed, but also in the land itself during the transition period.

As illustrating this fact, we may be permitted to quote from a review (1915) of real estate and mortgage conditions throughout the United States by Mr. Frank J. Parsons, vice-president of the United States Mortgage & Trust Company of New York, one of the largest and most expert loaning institutions in the United States.

"Perhaps the most noteworthy feature in New York City is that which has had to do with the state of the real estate and mortgage markets. Nothing like the recent condition of doubt and uncertainty has existed in this City for many years. This has been due in part to the readjustment of the structure of the city to conform to new alignments brought about by such tremendous influences as the new subway systems and other means of transportation."

A contributor to the *Record and Guide* (a New York real estate journal, issue of January 1, 1916) writes: "The greatest danger confronting the lender on local real estate is that resulting from shifting business centres. There are a number of districts in New York to-day, about which it is unnecessary to particularize, where

the property is not worth what it was five years, or less, ago. Some of these districts that I have in mind have had the most astonishing change, one that the wisest experts never imagined could take place."

The secretary of the Mutual Life Insurance Company of New York, speaking before the Association of Life Insurance Presidents, in New York, December 9, 1915, pointed out the necessity lenders on urban mortgages are under to exercise constant vigilance if they would protect their investments. To quote his words: "If, for instance, a company owns $100,000,000 of mortgages in a certain city upon property conservatively valued five years ago at $150,000,000 or $160,000,000, which real estate has now shrunken in value to $100,000,000 or $120,000,000, unless it has kept pace with this shrinkage by constantly calling for payments on account, it will find itself confronted with a situation where the equities above its mortgages have almost vanished. Many foreclosures will then follow. In order to avoid this unpleasant situation, the investing company must be alert to every change for better or worse in the various city districts where its mortgages are, and it must secure reductions from the principal of loans so

that, in a falling market, it keeps its proportions of loan value to market value constant. That is why recent history has caused us to be exceedingly wary."

This situation has recently become so acute in New York and other cities that large lenders and the real estate interests are searching for a remedy. At present this search focuses on the advisability of requiring regular annual or semi-annual reductions of all loans by amortized or installment payments. The arguments for this impress one as confessions of the constant and general danger of depreciation in city real estate.

Periods of depression are recurrent, and precautions do not always avoid serious loss. This is pointed out by Dr. Zartman in his book, "Investments of Life Insurance Companies," before alluded to, in the following paragraph:

"The cause of this change in the character of the assets lay in the depreciation of real estate values which set in with especial violence in New York during 1874–5–6. The companies of states which were allowed to invest in mortgages *outside of their own home state* did *not suffer* so quickly from the depression in values as did New York companies which were restricted to New York. *The Aetna, which had placed a great*

*part of its loans in small amounts on farm property, did not suffer much,* but the Connecticut Mutual, which had loaned large amounts on city property, had quite a different experience. . . . It became the possessor of thirteen million dollars' worth of real estate through foreclosure —five millions in Chicago, three millions in St. Louis, and nearly two millions in Detroit."

That the elements of weakness in the urban mortgage we have referred to do not affect the farm mortgage is suggested by Dr. Zartman in the above reference to the superior stability of farm mortgages in these trying times. It is fully evident when we contrast the character of the security for the farm mortgage with that of the urban mortgage with particular reference to the following points:

1. The security for the farm mortgage is the land itself—it is a fundamental requirement of the farm mortgage that it shall be fully secured in the land alone. The land itself yields the revenue, not the buildings. The buildings and other improvements are regarded merely as adjuncts. In this connection we refer to the schedule of requirements for satisfactory farm mortgage security appearing in a later chapter.

Depreciation by use, obsolescence, decay, or destruction by the elements of the buildings on the land covered by a farm mortgage, therefore, does not impair the real security for the investment. Neither is there the risk of the improvements on farm land being inappropriate to the land, and thus impairing the security. Farms may be improved with too expensive or unsuitable buildings, etc., but as these do not form part of the loaning value, their uselessness does not impair the security.

2. While it is true that the selling price of farm lands is often based on their "social" value in addition to their value for producing revenue, it has been pointed out that the loaning value of farm lands—the value on which the farm mortgage is predicated—is determined by careful lenders on a basis of production, and this changes only with reference to well-known universal conditions, such as the price of farm products, and not through the operation of local conditions, except as they are part of the constant process of improving transportation, markets, etc., which increase the productive value of the land in every community.

Farm lands, therefore, are not subject to depreciation, as is urban real estate, by sudden

changes in local conditions of the variety illustrated in the references to New York City.

The only chance of depreciation in farm mortgage security below its present loaning value lies in a lessening of its fertility, and this is at worst a very gradual depreciation against which the investor in farm mortgages is fully protected by the five-year term of such mortgages common in this country. Fortunately, however, for the country, modern agriculture is rapidly overcoming even this danger of gradual depreciation.

Farm land, as stated in a previous chapter, is the only security having in itself the quality of self-perpetuation—it is, more than all other security, *permanent*, and as such surpasses urban real estate in this prime requisite of security for the ideal investment.

# CHAPTER VIII

## FARM MORTGAGE FIELDS AND THEIR QUALIFICATIONS

Both farm mortgage bankers and investors in farm mortgages have decided preferences with respect to the locations where they place their loans. These preferences are based primarily, in the case of thoughtful investors, on the characteristics of the chosen fields, but in nearly every instance considerations appealing to the investor as an individual, and not abstractly, partly govern the preference. This is natural, of course. Given two loan fields of substantially the same characteristics, the investor would choose the one in which he had had a satisfactory experience, or in which his friends or advisers had had such an experience, or regarding which he was favorably informed. This element of personal experience or information is very influential and conceivably might lead to a choice on the part of the investor of a field inferior to others regarding which he had no

personal information. Some call such a preference prejudice, but it is hardly that. In fact, much that is called prejudice in investors is not so much that as it is an instinctive reliance on a modicum of personal information rather than on an abundance of documentary evidence. Nothing is more timid than capital, and this timidity shows itself most prominently in the over-emphasis it induces on the element of first-hand or personal knowledge. Many an otherwise shrewd or broad-minded person will choose a third-rate security which he has himself seen or examined even in a most superficial way, or which a personal friend has seen, instead of a first-rate security of which he has only documentary reports, no matter how authoritative. In this respect, many farm mortgage investors are still in the "leading strings" period—they are afraid to trust their own ability to investigate and judge on their merits the various farm mortgage fields and the offerings that come from them.

This fact of human nature affects choice of investments themselves, as well as choice of fields. This has been referred to in discussing the disinclination of Eastern individual investors to consider farm mortgages. Institu-

tions are less likely to be governed by this personal bias than individuals, especially as they grow in size and breadth of experience. Here again the insurance companies have shown the most impersonal and logical choice in the matter of investments, selecting their investments first with reference to their qualities, and second with reference to a distribution of risk and a financial contribution to the various communities in which they do business. And this discrimination has not only extended to the types of investments they choose, but, in the case of the companies investing in farm mortgages, to their choice of loan fields. Their reports show that they are constantly adding new fields to their sphere of loaning operations, after careful investigation, and that the percentage of increase of investment is usually highest in these new fields.

The individual investor, with comparatively limited funds, may argue that he prefers to let well enough alone if he is already having a satisfactory experience with a given field or fields, but even the individual might, to his advantage, maintain a receptive attitude toward the claims of fields unfamiliar to him. Because a field was once the most advantageous does

not argue that it will always remain so, either in intrinsic security or income return. If this were not so, there would never have been the movement of capital from the East that built up the agricultural West. But, in spite of this fact, many a Middle Western farm loan investor and mortgage banker is more intolerant of fields outside of his immediate observation than New Englanders ever were in the early days of Illinois or Iowa. Human nature is no more consistent in investment practice than in other things.

Besides this factor of personal information or experience there are considerations peculiar to the individual, including preference for the North or the South, generally with respect to the population and the climate, preference for certain types of farming or of crops, preference for fields within easy reach of the investor over even better fields, perhaps, at a distance. These and many other considerations are certainly dependent more on the individual viewpoint than on abstract and intrinsic qualifications, even though they merge with the latter in many cases. We have briefly referred to them before trying to outline the intrinsic qualifications of a good farm loan field, to suggest that intrinsic

qualifications do not by any means always govern the choice of investments, and that, in fact, they probably govern choice less than sentimental and other personal considerations. Hence it is that few farm loan investors or farm mortgage bankers agree among themselves as to which fields are in every sense the best. This renders a definition of the standard qualifications of a good farm loan field, that will not be disputed, difficult. Probably here again, as in the search for the ideal investment, the ideal farm loan field is purely hypothetical, and it is for the investor to choose, after analyzing each field in relation to the many qualifications, which are desirable, some of which we refer to below:

1. Soil, topography, and water supply.

2. Climate.

3. Crops.

4. Population.

5. Other factors in determining land values as a basis for loaning.

6. Borrowing a profitable practice for the farmer.

7. Demand for loans exceeding available funds.

8. A constant, sustained demand for farm lands.

9. General living conditions that are favorable.

10. Laws and government.

We have tried to divorce from our mind the thought of any particular field in enumerating these characteristics, and hope that nothing we have to say will be construed as a special plea for any one field or group of fields.

## 1. SOIL

Fertile soil is undoubtedly a characteristic of prime importance. A soil capable of producing the staple crops in such quantity and with such an expenditure for labor and preparation as will enable those cultivating it to compete on an equality with farmers in other sections, is a necessary qualification of a desirable loan field. Variations in fertility are often counterbalanced by other qualifications, so that fields cannot be arbitrarily ranked in the order of the fertility of their soils, but were other things equal, the more fertile the soil, the more desirable would be the field. An important adjunct of a fertile soil and suitable subsoil is the quality of retaining fertility. The rich alluvial soils of the river bottoms and the prairies are remarkable in this quality, many sections of the agricultural

States having been cropped for generations with no apparent diminution of fertility. There can be no question but what the intelligent use of crop diversification and natural fertilization should be encouraged in the richest sections of the country, but the sections where expensive fertilization is not imperative enjoy a special advantage over less fertile lands, which must be offset by the adaptability of the latter by reason of climate or otherwise to special use, in order to make the latter desirable as farm mortgage security. Often on the less fertile soils are found farmers who employ methods of such superior character as to put them more than on a par with the men who are farming soils of greater natural fertility. But this is a quality of moral hazard, less dependable than the natural qualities, and the fields of natural fertility are preferred, especially as the methods of farming, even where nature is more prodigal, tend to improve as the years go on. The virgin soils of to-day are for that reason in much less danger of depletion than were the virgin soils of a generation ago. The modern pioneer farmer learns, much more quickly than his father, the evils of one-crop farming and the advantages of summer cultivation, proper tillage, and crop

diversification as well as of the use of rotations and cover crops.

It is desirable that the soils of a loan field be adapted to a variety of staple crops—not simply to a few special crops—and that these soils be uniform in character, thus aiding appraisal and making for uniformity of values. Topography has an important bearing on soil, determining whether it be well drained or not, and whether it be easily cultivated or not. Gently rolling lands are preferable to lands on a dead level, but, on the other hand, slopes steep enough to make tillage more laborious or to cause washing of the soil are objectionable. One of the greatest handicaps in many of the older sections of the country is the spotted character of the farms with respect to soils and topography. Patches of stony land, gravel, sand, inferior soil, or broken land intervene between pieces of good soil, making uniform large fields impossible, multiplying labor costs, reducing the average productivity, and making appraisal difficult. The gently rolling lands often found on the prairies are ideal in many ways, especially when, as often is the case, they are uniform as to soil and remarkably free from waste land. Of course, rough lands carrying pasturage but unfit

for cultivation may be valuable to a farm for grazing purposes, but they must be valued as such and will necessarily reduce the average acreage value of lands in such a section.

A great number of accessory qualities occur to us in discussing soil. None, perhaps, is more important than water supply for livestock and domestic use. Rainfall will be discussed later, but it is obvious that to successfully conduct diversified farming operations, involving the raising of livestock, there must be an abundant and pure water supply. It is a great advantage if the supply from wells is augmented by natural springs, streams, and lakes.

It is undoubtedly preferable that there should be sufficient tree growth for shelter and perhaps for fuel and rough building material. Timber supply for these latter uses is often scarce in the more fertile regions, but in combination with fertility, it is an important advantage. So, too, is a luxuriance and variety of plant growth, giving beauty to the landscape, protection to water sheds, and furnishing fruits to the inhabitants.

## 2. CLIMATE

The desirable climatic features of a good farm loan field include adaptability to the cultivation

of diversified crops and the raising of livestock, sufficient uniformity of conditions from year to year to minimize crop failures, freedom from violent or destructive storms, and a reasonable degree of what we may call a "livable" climate.

These conditions obtain in widely varying degrees in the various agricultural regions of this Continent. A high degree of one qualification very often is offset by a very low degree of another. Personal preferences affect the judgment as to the degree in which some of these conditions exist—the Southerner would not think of the rigors of a Northwestern winter as contributing to a "livable climate," but the Northerner would prefer his dry, invigorating winters with all their hardships to the heat of a Southern summer. "Many men of many minds," fortunately for the development of the country, have differing ideas of many of the conditions in climate to be desired.

But we can safely say that a desirable farm loan field must have:

(*a*) *Rainfall* sufficient and regular enough to mature the staple crops and to furnish fodder for livestock, or that the deficiency must be supplied by a sure and adequate system of irrigation. No fixed annual precipitation can be

stated to be the irreducible minimum, for the effectiveness of natural as well as artificial moisture depends on the time of year it is supplied, on the quality of the soil that receives it, and on the extent of evaporation. The writer has seen not only cultivated crops but shrubbery and timber and natural grasses flourish in one section of the country under an annual rainfall that would be utterly insufficient on a more porous soil at a higher altitude and under a hotter sun. The test of sufficiency is rather in the production of the region over a term of years than in an arbitrary study of the precipitation records. The study of the latter is chiefly valuable as showing whether, in certain years, the region is likely to be subject to abnormally small precipitation. Such regions may well be under suspicion unless it is proved by adequate evidence that these recurring abnormalities in precipitation in previous years have not resulted in failures. Of course, no region is free from occasional shortage or even failures in certain crops, but failure from drought is so often complete as affecting all crops and even the fodder supply for livestock as to be a severe setback to the entire community. There is always a controversy between the advocates of humid or even extra humid regions

and those who prefer regions tending rather to deficient than to excessive moisture. The latter would contend that with the aid of cultivation the farmers on what are known as semi-arid lands have the advantage, because of the freedom of those lands from the necessity for artificial drainage and from the leeching process that attacks the fertility of lands in humid regions. The farmers in the humid regions, with abundant fodder crops and pasturage and luxuriant vegetation and freedom from the danger of complete failures if they properly diversify, feel they have the advantage. It will be interesting to see what will be the predominant opinion in the next twenty years, especially because the humid regions have had a long start on the regions of less rainfall, which are for the most part located in the more newly settled parts of the continent.

(*b*) Adaptability in moisture, temperatures, and freedom from destructive storms, to the growing of at least some of the great staple crops —cotton, corn, the small grains, and the fodder crops. Other things being equal, the region adapted to the greatest diversity of such crops would be preferable, but certain regions may have such an advantage over other regions in the

growing of some of these crops as to be actually better than regions growing all of them to inferior advantage. The important thing is a sufficient diversification of crops to insure the maintenance of soil fertility and to afford a reasonable protection against loss in case of the shortage or failure of certain crops. Probably it is a safer test of desirability to determine the average net production per acre over a term of years than to fix the attention on the variety or kind of crops grown, always taking into account the degree of efficiency in crop production prevailing in the region and the likelihood of the crop grown continuing to bring prices as good or better. On a production test a region populated by the best class of farmers might surpass a region better climatically, but having inferior farmers and a region producing certain specialties might yield a higher net revenue per acre than a region producing the commoner staples, but there would be introduced the question whether the farming efficiency of the better natural fields would not so increase as to put them in the lead, and whether the specialties in question would continue to command the same or better prices.

This same quality of adaptability should ex-

tend to the raising of livestock, and many regions which produce heavily of staple crops are unfavorable to livestock production. The history of agriculture would seem to indicate that no permanent agriculture can be built up without a foundation of livestock, and some disadvantages in climate for crop production or living might well be offset by a high degree of adaptability to livestock, particularly the raising of cattle, hogs, and poultry for meat, and of milch cows for dairy purposes. In this relation the importance of the fodder crops is manifest, and a region superior in the production of certain staple crops for export sale might well ultimately be surpassed by a region not so prolific in "money" crops but better adapted to the fodder crops and the production of livestock.

Freedom from injurious storms and wind during the growing seasons and from severe blizzards in winter is desirable, but few regions are free from all. The warmer regions are freer from hail and more subject to hot winds, they may be freer from the rigors of cold winters only to be more subject to disease, for climate seems to have a direct bearing on diseases—both of plant and animal life. The law of compensation seemingly operates here as elsewhere in nature,

and the investor cannot expect to find a climatic Eutopia.

(*c*) A climate adapted to the necessary activities and life of a progressive and successful farming population. The winters of the North interfere with much of the daily work of farming and prevent more than a single crop a year in most sections, but they have many advantages in the stimulus they furnish to active mental, moral, and physical development, and in the prevention of disease. The open winters and hot summers of the more southerly regions make two crops a year often possible and they interfere much less with the daily routine of the farm except where excessive heat, like excessive cold, interferes. Again the law of compensation is at work.

No brief discussion such as this can more than suggest the variety of considerations with regard to climate that enter into the selection of a farm loan field, but at least it will make it evident that a safe conclusion can be based only on a careful investigation of actual conditions and not on an *a priori* judgment.

### 3. CROPS

Here it is necessary to repeat that the preferred farm loan field will not only be capable of

producing a diversified number of the great staple crops—cotton, corn, the small grains and the fodder crops—and of supporting livestock—it will also be a field where such diversified or mixed farming is the rule and not the exception. "One-crop" farming is unsatisfactory: it not only reduces the fertility of the soil, but, worse than that, it makes of the farmer a speculator, staking everything on one crop, hard put to it to make ends meet if the crop is poor or a failure. The lender to a "one-crop" farmer lends to a speculator and takes a speculator's chance as to the prompt meeting of the obligation. "One-crop" farming stands in the way of increasing farm values because it discourages home making and better living conditions, holds the community on a dead level of mediocrity, and steadily undermines the basis for farm values, viz., the fertility of the soil. The wise lender will do everything in his power to discourage such methods.

A type of "one-crop" farming, confined to certain localities of limited areas, which is not necessarily detrimental to the communities where it is practiced, but which is not favorable to farm mortgage investment, is the raising of specialties, such as garden truck, fruits, etc. The success of such farming and the value of the

security are too dependent on the moral hazard, as requiring special intelligence and ability, to make such localities attractive to lenders at a distance.

Thus it will appear that in the desirable farm loan fields the farmers generally will be found to be raising a variety of crops and livestock, keeping at least a large part of the product of the soil at home by feeding it, and shipping off the farm little except in the form of meat or dairy or poultry products. Such farming is insurance against sudden financial disaster and against soil depletion, and moreover gives to the farmer the maximum return for his investment, a better living with less cash expenditure, a steady increase in the value of his farm holdings, and a more stable and hence more advanced community life. The constant attention to detail and the more thoughtful planning required by this type of farming are distasteful to many, and every newly developed section has a large proportion of farmers who have tried to get away from such farming by going to a new region of low-priced land where they can get along on "one-crop" methods. Fortunately vicissitudes of climate and markets, as well as the pressure of rising land values as these regions develop,

gradually force such farmers either off their farms or into diversified farming.

"One-crop" farming is not by any means confined to the newer sections, however, but is found alike in the South, the Middle West, and the Northwest—in cotton growing, corn raising, and wheat raising. Wherever it may be, the result is much the same, and the "one-crop" farmer, like the "one-crop" district, is avoided by careful lenders, although in many sections loans are safely made on such farms in the knowledge that the condition cannot last and that if the present encumbent does not change his ways, his successor will, and that the farm security itself will follow the trend of values induced by the more progressive farmers. In this sense much judicious lending may be done in districts which are gradually adopting mixed farming methods, being fully suited for them, but not fully developed in that direction. This principle of lending governs the policy of some of the most conservative lenders in the country, nearly every field presenting some phase of this situation.

The order of choice with the farm mortgage investor, however, would still be, first, the established mixed farming community; second, the

sections adapted to mixed farming and gradually developing it; third, the sections adapted to it but not awake to its advantages. The sections where mixed farming, because of limitations of soil, water supply, possible crops, or climate, is not practicable or, even, is handicapped, are least attractive.

## 4. POPULATION

Obviously the production and development of any region depend on its population. Without intelligent, industrious, economical, and progressive population, a region of the greatest natural advantages is handicapped. On the other hand, many of the most productive agricultural countries of Europe are naturally ill-adapted to agriculture, and the population has been more of a factor in the success of the country agriculturally than soil or climate or any other factor. A similar condition is somewhat true of this continent, so far as the results obtained by the most industrious and intelligent farmers in inferior sections agriculturally are compared with the results obtained by inferior farmers under the most favorable conditions. But the contrast is the more marked between the results obtained by farmers of the former

class in the favored sections and the results there obtained by the poorer farmers. Every traveller in the fertile sections of this country has marked the striking contrast between farm and farm. Given equal advantages in soil, climate, and education, the inherent inequality between men appears in farming as everywhere else.

In the older settled sections the pace is more likely to be set by the better farmers in the neighborhood, who fix land values on the basis of what they can make the land produce and of what they are willing to pay for it. In the newer sections, where the farmers have not had time to work out their respective fortunes, each farmer sets his own pace to a greater extent and has his own ideas of methods and values, depending largely on his own experience and observation both in his new field and in the region from which he came. Farm prices are fixed not so much by what the better class farmers are producing, and would be willing to pay for lands if they had not enough, as by what newcomers will pay, and by the crop returns from year to year—the prices violently fluctuating from year to year on the basis of these two factors of outside demand and the current year's production.

This reference to values is introduced here to show that the incentive to good farming that exists in an older settled and established region is not found in the newer regions, until they have had several years development. For this reason, and because there is a tendency on the part of the less successful element in any community to look for the "end of the rainbow," and to emigrate to the newer sections, the standard of farming practice, and the general character of the farming population itself, in such newer regions, is usually not so good as in the older. In respect to population, therefore, the better established farming regions are, generally speaking, more attractive to lenders on farm mortgage.

Not only is the population in such districts likely to be of better grade—it is also greater in numbers, and thus there is a greater demand for land in proportion to the supply and hence a directly beneficial effect on values. As pointed out above, however, the higher the standard of farming set by the best farmers, the higher is likely to be the standard of farm values, and if the farming ability of the bulk of the population is of a low order, the values may be too high, considering what the lands produce in the hands of the average farmer, thereby making the field

less desirable. The quality of the average farming in a district determines the desirability of the field in the eyes of the investor.

It may be argued that the quality of the average farming is sufficiently susceptible of improvement to make the achievement of the better type of farmer a fair basis of value, but observation indicates that for improvement in quality there be must a basis that is much more frequently found in certain races and nationalities than in others, e. g., the Dane is famous for his dairying, the German for his industry and frugality, the native-born American for his enterprise and capacity. Others might be mentioned for their good qualities—it is unnecessary to mention those types which we all know to be unadapted to farming conditions, at least as they exist in this country. Where a newly developing country is being settled by these favored types, it is safe to prophesy that the element of quality in the population will make itself felt in time, just as it is necessary to an even and progressive development in the older sections.

The factor of numbers in its effect on values is a more puzzling one, depending, as it so often does, on outside conditions not strictly related

to the agricultural character of the region. Generally speaking, population will steadily increase in a good agricultural region so long as good lands are available at prices more attractive in comparison with their productivity and other advantages than the lands from which immigrants may come.

The investor will, therefore, first determine that the population generally in his chosen field is at least potentially of good quality, and second, that land values either are at such a level as to attract new population until the field is sufficiently well developed, or that the field, being already well developed, maintains its land values on such a level as to hold its population, and justify the values of the land in the hands of the average farmer.

All of the foregoing has a bearing on land values, which, in the last analysis, are the basis of farm mortgage banking. There are a number of considerations affecting the determination of land values directly, that should be pointed out.

## 5. OTHER FACTORS IN DETERMINING LAND VALUES AS A BASIS FOR LOANING

It is of the greatest importance, we believe, that the lender should never lose sight of the

intrinsic value of farm lands on which he is lending. Prices may or may not be an index of intrinsic values—they are as often below or above intrinsic value as they are in keeping with it. Many factors enter into a determination of intrinsic value, but a cardinal requirement, as before intimated, is that it should be based on the net results of cultivation by the *average* farmer raising the staple crops and livestock. We have seen that in the older settled sections the pace in values as well as the pace in farming is likely to be set by the best type of farmers. For this reason and because lands in an established neighborhood have acquired a home value distinct from their producing value, the prices of lands in the best established agricultural regions are likely to be above the intrinsic value of such lands in the hands of the farmer of medium ability and industry. Since this average farmer is the average borrower, he ought not to be carrying his land investment at a higher figure than its intrinsic value, if he has any idea of liquidating the principal of his obligations, not to mention the interest on them. A level of land prices above intrinsic values is an unhealthy condition which is bound to have a disintegrating effect on the farming community

where it exists, discouraging the sons of farmers so that they give up farming or emigrate to cheaper lands, checking immigration and encouraging tenancy. For where land is too high priced to yield a fair return, the tendency is for it to remain in the hands of retired farmers and estates, the active farmers preferring to rent it at the prevailing crop or cash rent terms rather than own it. The natural result of such a process is a deterioration in the quality of the farming and hence of the farms themselves, followed by falling prices. Nowhere has this been so manifest in the history of this country as in the Eastern States, where the general level of farm land prices is below what it was, say, thirty years ago. The operation of this process may be postponed or offset by rising prices for farm products, or improving local markets or facilities for marketing. But as soon as these special factors cease to operate, the process makes itself felt again, and is especially stimulated when a period of easy money and land speculation makes the way easy for the farmer who wants to move to cheaper land to sell out, and finance a new farming enterprise elsewhere.

In determining intrinsic value the qualities which are inherent in and peculiar to the land in

question should be distinguished from qualities that may attach to it only temporarily. Improvements, marketing and transportation facilities, educational facilities, living conditions, generally, all may at one time be peculiar to certain regions, but a few years later be duplicated or even improved upon in other regions. If this distinction is not made, the readjustment in prices which is always in process between the various sections of the country as the newer and less developed sections acquire the advantages before confined to the older sections, will catch the investor unawares, with a security of depreciating value, that may be difficult to liquidate. The savings banks of New York State which were caught with excessive loans on New York State farms a generation ago, when land values fell there as they rose in the Middle West, are not the only investors who can testify to the truth of this.

Of course, mere producing power in dollars and cents is not the only factor in intrinsic value. Proximity to the great markets, topographical and climatic conditions favorable to living and home making, these and other factors must be taken into account. But there is seemingly always a tendency on the part of

older sections to overrate their own advantages in these particulars, and time with its changes steadily works in favor of the newer regions. Moreover, after all, the lure of profits remains uppermost in the mind of the young farmer with his life before him, and he is often quite as satisfied to feel himself an essential factor in the upbuilding of a new community as to remain in his home neighborhood.

It is not always easy to determine, even on a purely financial basis, the intrinsic value of lands. It is a well-known fact that strict accounting methods would convince many farmers of their insolvency, who are and have been making a good living, paying their debts, and even accumulating savings. This is in some instances due to the advance in the value of their lands. They deceive themselves by failing to reckon the interest charge against their land at current prices, calculating it, if they take it into account at all, rather on the price they paid years before. They are thus living on the interest on the increment rather than on the profit from their farming. In other cases the labor charge against certain operations on the farm is excessive, if it does not take into account the fact that the labor

supplied would otherwise have been idle. Still other factors may intervene to render a strict accounting misleading in determining the farmer's ability to continue as he is and even improve his position.

For the investor it will be more satisfactory to eliminate any particular farmer's experience, with its special offsetting features, and to determine by a calculation of the net revenues from a ten-year average yield of the crops grown on the land to be valued, what average net revenue may be capitalized to find the true value of the land. As a simple illustration, if an acre of land has yielded an average of twenty bushels of wheat per annum for ten years, and the average price of wheat to the producer for those ten years has been 80 cents a bushel, and the generally accepted estimate of the cost of getting a crop and taking it off plus taxes is $10 an acre, the average net revenue to the owner-producer has been $6 on an acre, without deducting interest on the investment. Capitalizing on a 10 per cent. basis, such land is worth $60 an acre. Of course, in calculating the value of an entire farm, the worthless land, if any, must be allowed for, and the inferior land must be figured on its own basis of worth. An added charge for in-

terest on the improvements must be taken into account. Here it may be added that improvements in the way of buildings are rather more often excessive in proportion to the value of the land than insufficient, thus involving an inordinate charge for interest on partially unproductive improvements. The newer regions are freer from this drawback than the older, and the worst instances are probably in those sections, especially in New England, where farms can be bought for less than the cost of the buildings. Nevertheless, with all these allowances, we believe this the safest starting point in valuing land for loaning purposes. After its value on that basis is determined, local conditions should be taken into account, for very often land will not *sell* for one-half its intrinsic value, in an underpopulated and underdeveloped region, and, of course, the loaning value should never exceed the selling value under the least advantageous circumstances—that is, during a period of tight money, no immigration and poor crops, and with the improvements in poor repair and the land in bad condition. These adverse conditions operate to reduce the selling price of land in an underpopulated region more sharply than in a section where lands are more difficult to obtain,

and that is one of the principal reasons for the loaning rule in such newer regions that not more than $33\frac{1}{3}$ per cent. of a fair valuation at current prices be advanced.

The determination of the intrinsic value is valuable, moreover, as showing what the inevitable tendency will be in the prices of the lands in question. If the ruling prices are higher than the intrinsic value, the danger is of receding prices unless there is an advance in the price of the product or some other new factor intervenes. If the ruling prices are lower than the intrinsic value, the tendency will be upward, unless there is a fall in the value of the product, or there is some interference with the average of production.

Fear of this latter contingency, through some unforeseen climatic condition or otherwise, is undoubtedly the greatest factor in retarding the appreciation of land prices in the newer sections to a point approximating their intrinsic values. Both investors and settlers hesitate to try an unproved region. But it should be remembered that the pioneer investors and settlers reaped the harvest in the early days of settlement of our best agricultural sections. What mistakes were made and losses incurred were chiefly in those

sections which had not stood as much as a ten-year test. Few, if any, parts of the continent to-day have not a longer record than that in agricultural endeavor.

### 6. BORROWING SHOULD BE PROFITABLE TO THE BORROWING FARMER

A corollary of land prices not in excess of intrinsic values is the profitableness of borrowing to finance such lands. The farmer who borrows to buy land or finance his equipment for operating it should be able to earn a higher return on the money borrowed than he pays in interest on the loan. Else how can he expect to pay interest and liquidate the loan? It is hardly sound finance to advance loans to borrowers who cannot demonstrate that borrowing is likely to be good business for them. The safe loan is a loan profitable to the borrower as well as to the lender, and careful lenders will satisfy themselves of that fact in the case of each loan before making it. As a general rule, loans should be advanced only on such farms and in such amounts as, in the hands of farmers of ordinary capacity, would earn a surplus for the borrower over and above the interest charge. Any other course invites disaster sooner or later.

Loans that conform to the above requirements must naturally be for productive purposes —not to finance old debts of doubtful cause, the purchase of non-productive property or luxuries, etc. A typical schedule of objects for which loans may well be granted and of those for which they should not be granted is contained in a previous chapter.

### 7. A DEMAND FOR LOANS EXCEEDING AVAILABLE FUNDS

The most desirable farm loan field will furnish a steady demand for loans of this productive character, the demand preferably exceeding the supply of funds, so that the competition among lenders may not induce loans excessive in amount and on unremunerative terms. Such competition often offsets decided advantages in other directions, because it renders it difficult to maintain properly conservative standards, and encourages an arbitrary attitude on the part of borrowers. Too easy borrowing conditions are more detrimental to a loan field than almost any one economic factor, encouraging inflation of values and a careless attitude on the part of borrowers toward their obligations.

### 8. A CONSTANT, SUSTAINED DEMAND FOR FARM LANDS

As has before been referred to, a constant, sustained demand for farm lands is a most desirable factor in a loan field. Such a demand is the surest protection against foreclosure troubles, and minimizes the dependence on the moral hazard, for as soon as a borrower becomes involved, he is likely to try to convert his equity in his land into cash by a sale of it, thus making the purchaser, who is presumably in stronger position, responsible for the mortgage. Under such conditions the lender seldom has to take land under foreclosure.

Such a demand is usually best sustained in a well-established community of prosperous farmers, where land is available only in limited quantities, and any given farm is ordinarily surrounded by neighbors able and anxious to buy it at a fair price. Such a condition is least likely to obtain in sections that are retrogressive in their agriculture through having been over-developed and valued, and which are losing their best population to more favorable locations. Such a condition is also less likely to obtain without severe fluctuations in a newly developed

community, where the amount of land available is large in proportion to the number of prospective purchasers. A spurt in settlement may advance prices, only to leave them at a standstill or to depress them when it subsides. As before pointed out, setbacks from crop failures or "hard times" or low prices affect such regions more sharply than older settled and better improved loan fields. The lender on lands in a newly developing region must loan with these facts in mind, keep his loans down where they will have a good margin under the most adverse conditions, and must be prepared to occasionally take land under foreclosure, and carry it until sold. Such a field, having the concomitant advantages, as it usually has, of lands that yield a large return on their price if properly handled, and of a steadily advancing general level of land prices, is a very attractive one to the strong, well-systematized farm mortgage banking house. Such a house knows that loans made in such a field have the best possible intrinsic security, and cannot in any case bring more than temporary embarrassment, whereas loans on the fully developed and most expensive lands may be difficult to liquidate eventually, if the security fails to advance in value. Small

loans on lands in the nature of things bound to advance in value have a better record than full loans on lands in districts subject to readjustment of values downward. It is for the investor to apply the test of intrinsic value, independent of local sentiment, if he would build on a permanent foundation of security.

### 9. GENERAL LIVING CONDITIONS THAT ARE FAVORABLE

Apart from plant growth, topography, accessibility to markets and climate referred to above, there are many other things that have a more or less direct bearing on the efficiency and comfort of the farmer, and, therefore, on farm values and the desirability of a farm loan field. It is an advantage to him to be within easy access of cheap building materials and fuel, to be where he can get reasonably priced implements and household furnishings, as well as clothing and such food supplies as he needs to buy. Good roads, rural mail delivery, rural telephones, good schools, and church facilities are all important. In the latter requirements of the ideal farm community there is far less difference between the older communities and the newly developed sections than there was a

few years ago. Schools, churches, telephones, mail service, well-stocked stores—all these and many other advantages often come to newer communities in greater measure than to many of the older—their presence depends more on the character of the population and the productiveness of the region than on age. Reasonable prices for manufactured articles come more slowly because local manufactures come only to thickly populated sections, and, meanwhile, heavy transportation costs are a handicap.

### 10. LAWS AND GOVERNMENT

This, the last qualification specifically referred to in this chapter, is fundamental, ranking next to soil and climate—next to them only because they are naturally permanent characteristics. Laws and government may change for better or worse. It is of the greatest importance that, in a farm loan field, the laws governing recovery of the debt by legal process be equitable and just and strictly administered. It is evident from experience that those agricultural sections which best protect the just and reasonable claims of the lender enjoy the best credit and greatest advantages in borrowing, and lenders wisely hesitate to loan where the laws interpose to

delay recovery of debts or to release the debtor in any way from his just debts. Laws that operate to this latter end, although ostensibly enacted to protect the weak from the oppressions of the strong, always result adversely to the interests of borrowers in general no less than of lenders. The lender on farms may well demand that the local government of the section in which he loans shall without prejudice or delay administer the laws and that these laws shall make an indisputable title in the borrower easy and sure of establishment, and recovery under foreclosure in case of default prompt and inexpensive. There is such a wide divergence between various loan fields in these important particulars that the investor should examine into them with care and particularity. Since the character of the population is at the foundation of law and government, the attention of the investor will be directed not only to the existing statutes, but also to the attitude toward law and justice in the community. The community with a poor record for protecting the rights of capital—non-resident and otherwise—in its courts and by its laws in times of stress as well as in prosperity deserves the heavy penalty it always suffers from such shortcomings, a penalty that

is continued and cumulative with the years, restricting the supply of capital for development and burdening the borrower with interest charges and other requirements often out of proportion to the intrinsic merits of the situation. It is a wise community that encourages and protects capital, in foul weather as in fine, with a collective sense of honor as sensitive as that of the individual. Many sections of this country have learned this lesson by bitter experience, and it is to be supposed that the lesson has been well learned quite generally over the continent by force of example if not by experience.

# CHAPTER IX

## FARM MORTGAGE BANKERS' ASSOCIATION OF AMERICA

THE Farm Mortgage Bankers' Association of America was formed at a meeting held in the City of New York, May 7th and 8th, 1914 by representatives of a number of leading houses engaged in farm mortgage banking, and now includes in its membership considerably more than one hundred of the principal concerns in the business.

At the organization meeting a Constitution was adopted with the following Preamble:

### PREAMBLE

In the belief that the formation of an association of individuals and corporations dealing in farm mortgage loans will in general promote their welfare and extend their influence, and, specifically, accomplish this desirable object by (1) encouraging intelligent legislation affecting the business; (2) acquiring and disseminating correct information regarding the business; (3)

aiding public discrimination between such securities and dealers therein as should command confidence and those who should not; (4) securing uniformity of practice where uniformity is desirable; (5) affording opportunity for those engaged in the business to secure the benefits of personal acquaintance and interchange of ideas, both by individual contact and public discussion and in various other ways not herein enumerated, we submit below a form of Constitution and By-laws for such an organization.

The Constitution provided among other things, that "Any National or State Bank, Trust Company, corporation, partnership, or individual, in good standing, having a paid-in capital stock and surplus of $50,000 or more, and which makes a practice of loaning money on the security of improved farm lands, and publicly offers such securities for sale, as a dealer therein" should be eligible for membership. This clause was amended at the Convention of the Association in St. Louis in October, 1915, so as to make the capital qualification $25,000 instead of $50,000.

The administration of the affairs of the association is vested in the President, three Vice-Presidents, and a Board of Governors of twelve members. The Governors serve for four years

and the officers are elected annually. The office of Secretary-Treasurer is appointive, and the present secretary is H. M. Hanson, Esq., with headquarters at 417 Merchants' Loan & Trust Company Building, Chicago, Illinois. The names of the present officers and members of the association appear in the Appendix.

The existence of an association with the avowed purposes of the Farm Mortgage Bankers' Association of America is of vital importance to the investor, for in the long run the interests of the investor and the reliable farm mortgage banker are identical, and such an association can and will render an invaluable service to the investor.

Reference to the Preamble will indicate some of the directions in which this mutual service may be rendered. Legislation freeing the farm mortgage from existing handicaps through disadvantageous collection and title laws will benefit the farm mortgage banker and investor alike. It is certainly to the advantage of the investor that correct information on farm mortgages be disseminated as widely as possible. Nothing can be for the greater advantage of the investor than that the unreliable concerns in the business be discriminated against. In this connection,

it may be added that the association has already done effective work in eliminating from the farm mortgage business certain houses not entitled to the investor's confidence. It will be to the advantage of the investor when farm mortgages are more fully standardized in form and method of negotiation. All these and many more objects are alike desirable in the eyes of the investor and the farm mortgage banker.

For these reasons, and for his own protection, the investor may well acquaint himself with the membership of the association, for the presumption is that members of the association are desirable business connections. The association places emphasis on the desirability of every investor carefully investigating for himself the qualifications of its members before investing. Moreover, the investor might well make a more unreasonable requirement of the houses with which he does business than that they be members in good standing of the association, for the association can do its best work for both investor and farm mortgage banker only as it presents a united front in its undertakings.

# CHAPTER X

## CONCLUSION

We hope that what has been said will make clear the fact that the farm mortgage, as it may be purchased in this country, is an investment suitable to the needs of the most conservative investor, both small and large. It is at present in favor with the largest institutional investors, as well as with those who are dependent on small savings. It is equally adapted to the requirements of both as presenting in combination a maximum of safety and income.

As we have before pointed out, the touchstone of success in farm mortgage investing for the investor is his selection of his mortgage banker, so that we risk tiresome repetition in summarizing below some of the obvious qualities of the desirable farm mortgage banking connection:

1. That it shall have had adequate experience, either as a concern or in the person of its active managers.

2. That its active managers shall be men of high personal standing in their own community.

3. That it shall have sufficient financial resources to handle its outstanding business without embarrassment. It is desirable that the outstanding investments controlled by the house should not exceed twenty, or at the most, thirty times its capital and surplus. There are individuals and firms engaged in the business of highest repute whose outstanding business probably exceeds this ratio in relation to the funds invested in the business, but as a rule special circumstances exist in the arrangements between these concerns and their chief customers which make this possible.

4. The financial resources above mentioned should be required not only for the protection of the house and the investor against ultimate loss, but to enable the negotiating house to render the best service to the investor. Although some investors object to the advancing of interest, as covering up the actual state of the mortgage account, it is obvious that this practice is of the greatest convenience to the investor, as is also the practice of advancing taxes and insurance premiums, so as to keep the security always in the best of standing, and putting the burden of re-

covering these advances from the mortgagors on the negotiating house. There can be no risk in this practice if the records and accounts of the negotiating house are properly vouched for.

5. It is highly desirable that the negotiating house have regular audits made of its records and accounts by certified public accountants who shall be experienced in this particular line of business, and that the results of these audits be regularly announced to the customers of the house. There is no incentive to a good farm mortgage house to violate good faith with a client, for a single malfeasance of trust would lose for the house far more than any temporary advantage it might secure dishonestly. The value of the disinterested audit is rather to standardize accounting methods and assure the investor that all details are being correctly handled.

Investors who will take the small pains necessary to establish connections with farm mortgage houses possessing the above qualifications may place their funds in mortgages negotiated by them, with little question as to details, either of field, papers, or otherwise, although all these details are well worthy the study of every intelligent investor. It is always

amazing to dealers in investment securities that persons who have spent a lifetime, perhaps, in acquiring a competence, or who are solely dependent on small invested savings for their living, will begrudge even a few hours' time in corresponding and personally inquiring about their prospective investment connections. Where there is ignorance as to how to go about such an investigation, we would refer to the methods outlined in a preceding chapter. Every reputable farm mortgage banker will coöperate in making an inquiry effective, and the officers of the Farm Mortgage Bankers' Association are always ready to answer inquiries which may well be addressed to the secretary.

# APPENDIX

# APPENDIX

## TYPICAL MORTGAGE PAPERS

Scattered throughout the subsequent pages are reproductions of mortgage papers used in connection with the various phases of the negotiation of a typical farm loan, as described in Chapter III. While these show the essential details, it must be borne in mind that there are many variations in such forms, some made necessary by differences in State laws, others made in accordance with the different ideas of negotiating bankers. The papers are:



## LIFE INSURANCE INVESTMENTS WITH SPECIAL REFERENCE TO FARM MORTGAGES

Report submitted December 9, 1915, at the Ninth Annual Meeting of the Association of Life Insurance Presidents.

By Robert Lynn Cox
*General Counsel and Manager*

In considering the present status of investments of life insurance companies with respect to farm mortgage loans, it seems proper to take first a general survey of the classes of investments held by American companies December 31, 1914, as compared with the situation ten years previous. The table below is for all

American companies whose figures were tabulated in the Insurance Year Book for their respective dates.

## ASSETS OF AMERICAN LIFE INSURANCE COMPANIES

| | Dec. 31, 1904 | Dec. 31, 1914 | 1904 % | 1914 % |
|---|---|---|---|---|
| Real Estate | $ 180,875,035 | $ 171,173,551 | 7.24 | 3.47 |
| Real Estate Mortgages | 671,577,813 | 1,706,365,405 | 26.88 | 34.58 |
| Bonds | 1,067,027,851 | 1,981,751,698 | 42.69 | 40.16 |
| Stocks | 172,582,975 | 82,552,532 | 6.91 | 1.67 |
| Collateral Loans | 42,715,261 | 20,351,766 | 1.71 | .41 |
| Policy Loans and Premium Notes | 189,738,779 | 735,348,014 | 7.59 | 14.90 |
| Cash | 104,027,124 | 95,160,368 | 4.16 | 1.93 |
| Deferred Premiums | 45,879,455 | 68,832,680 | 1.83 | 1.39 |
| All Other Assets | 24,636,705 | 73,716,779 | .99 | 1.49 |
| Total Admitted Assets | $2,499,060,998 | $4,935,252,793 | 100 | 100 |

Some notable features in the above table attract the attention at once. First, and most important of all, is the fact that in ten years' time the assets of American companies have practically doubled in amount. Great as was this increase in the family protection funds of the country, it only kept pace with the increase in national wealth, which also about doubled during the same period. The next striking fact is that investments in real estate mortgages are two and one-half times as large, increasing from $671,000,000 to $1,706,000,000. On examining the relations of the various classes of investments to each other, as given in the column showing the per cent. of assets invested in the different kinds of securities, we find that during this period the companies' holdings in real estate have decreased more than one-half in ratio to other securities, and have actually decreased in amount over $9,700,000. The percentage of investments in stocks is less than one-fourth what it was ten years ago and in actual amount is about $90,000,000 less. The percentage of collateral loans is less than one-fourth what it was ten years ago and in actual amount over $22,000,000 less. Cash on hand also has been reduced one-half in percentage and nearly $9,000,000 in amount. In short, the trend of the times has been to reduce investments in stocks, collateral loans, and real estate, also to reduce the proportion of cash

and farm the land myself..............................
or corporation has any interest in or right to the possession of any portion of said premises or the buildings thereon.

The distance to school house is.......: miles; the nearest railroad market town is.................., .......miles, population.......; about.......families reside within three miles of this land; the nationality of the settlement is................; soil is..........loam................inches deep, subsoil............; surface is ........................ (level or otherwise); ................acres can be cultivated;..............acres are now cultivated; ..............acres meadow; ..............acres fenced pasture;..........acres stony;.......... acres unfit for cultivation because........................ (Rough or Water) The land is watered by........................ (Well, spring or stream)

Value of land exclusive of buildings - - - - - - - - - - - - - - - - - - - - $...........

Value of house............ (Material) size......x......x...... - - - - - - - - - - - - - - $...........

Value of addition to house............ (Material) size......x......x...... - - - - - - - - - - $...........

Value of barn............ (Material) size......x......x...... - - - - - - - - - - - - - $...........

Value of granary............ (Material) size......x......x...... - - - - - - - - - - - - - $...........

Value of other buildings - - - - - - - - - - - - - - - - - - - - - - - - $...........

Total value of farm - - - - - - - - - - - - - - - - - - - - - - - - - $...........

Acres cultivated on land adjoining on north............., east.........., south.........., west........

I own.........horses, .........cattle, ..........sheep, ........hogs; total value of live stock $........, and sufficient farm machinery to farm..........acres, value $.............. The average value of partially improved land in this locality is $........to $........per acre. I also own another lands being............ ..............................................value $............. I will use the money borrowed to ......................................................................................

I have read the above statements and understand that the loan hereby applied for (or a loan for such smaller amount as I may subsequently accept), will, if made, be based upon the representations above set forth, which I solemnly swear are true in every particular; and the above described land is free and clear from all liens and incumbrances, except such as will be paid out of the money borrowed, and there are no judgments against me in the United States or State Courts. I hereby constitute and appoint ...................... ..............my agent, to negotiate and procure for me the loan hereby applied for (or such smaller sum as I may hereafter accept) and to receive from said company all moneys which will be due me upon delivery of my note or bond and mortgage to said Company. Payment to my said agent of the principal sum secured by said mortgage shall be construed and held to be a sufficient consideration for the execution and delivery thereof to said Company. I hereby authorize my said agent to pay off all liens on said land, and if any loss shall accrue by the sending of money or drafts for such purpose, the same shall be at my risk.

Dated ..............................., 191....   ................................., Applicant
(Name in Full)

P. O. ........................, County...........

State ....................................

State of ...................... }
County of ..................... }

The above statements of..........................................................................
were subscribed and sworn to before me this.............day of ................................ 191....

..........................................................

Notary Public ..................County, ..........

My commission expires ....... .............., 19....

# SPECIAL EXAMINER'S REPORT

**To** **(Name of Bank or Trust Co.)**

1. *I hereby Certify, That I am well acquainted with the land of* ______________________
2. ______________ *situated in* ______________________ *County, State of* ______________
3. *and described as follows, to-wit:* ______________________________________
4. ______________________ *quarter* (____________) *of Section* ______________, *in*
5. *Township* __________ *North, of Range* ________, *containing* ______________ *acres. I recently made a careful,*
6. *personal examination of said property, and from such examination, find as follows:*
7. *This farm is* __________ (Well or Poorly.) *located in a* __________ (Well or Thinly.) *settled neighborhood,* ____________ *miles* ____________ (Direction.)
8. *of* ______________________ *a railroad town of* ____________ *inhabitants, on* ______________________ *Railroad,*
9. *and within* __________ *miles of a schoolhouse. Adjoining lands are held at from $* ____________ *to $* ____________
10. *per acre, for* ______________ (Improved or Wild.) *land and are* ______________________ (Occupied or Unoccupied.) *by actual settlers, and*
11. *are, generally speaking,* ______________________ (Cultivated or Uncultivated.) *The surface is* ______________________ (Level, Undulating, Rolling, Very Rolling, Rough or Broken.)
12. *The soil is* ______________________ (Black Loam, Black Sandy Loam or Light.) *and the subsoil is* ______________________ (Clay, Sand or Gravel.).
13. *The land above described consists of* __________ *acres of tillable land, and* ______________ *acres of land unfit for culti-*
14. *vation. There are* ____________ *acres now under cultivation, and* ______________________ *acres of fenced pasture.*
15. *There are* ____________ *acres of good hay meadow, which can all be mowed.*
16. ____________ *acres of the tillable land are* ____________ (Very, Quite or a Little.) *stony* ______________________ (Small Stone or Boulders, and Surface or Blind.)
17. *The land is* ____________ (Well or Poorly.) *watered by* ______________________ (Wells, Springs, Lakes or Streams.)
18. *Is there any* <u>*Quack Grass*</u> *growing on this land and if so, how much?* ______________________

**THE BUILDINGS ON THE ABOVE LAND CONSIST OF**

19. __________ *story* ______________ (Frame or Otherwise.) *house, size* ________ x ________ x ________, *value $* ________
20. __________ *story* ______________ (Frame or Otherwise.) *barn, size* ________ x ________ x ________, *value $* ________
21. __________ *story* ______________ (Frame or Otherwise.) *granary, size* ________ x ________ x ________, *value $* ________
22. ______________________________________________________, *value $* ________
23. *Total value of improvements* ______________________________________ $ ________
24. *Value of land exclusive of buildings,* ______________________________ $ ________
25. *Conservative value of land and improvements,* ______________________ $ ________
26. *The buildings are in* ____________ (Good or Poor.) *repair* ______________________ (Improved or Unimproved.) *lands in that locality are*
27. *selling at $* ____________ *per acre, and this farm could* ______________________ (Readily or Probably.) *be sold for $* ____________
28. *The applicant is a* ______________ (Good, Fair or Poor.) *farmer, his neighbors are* ______________________ (Good or Poor.) *farmers, and*
29. *the general appearance of the neighborhood is* ______________________ (Thrifty or Shiftless.)
30. *The applicant I know* ______________________ (Personally or by Special Inquiry.) *to be a man of* ______________________ (Good or Poor.) *character, and his*
31. *credit is* ______________ (Good, Fair or Bad.)
32. *The applicant is* ______________ (Well or Poorly.) *supplied with stock and machinery.*

carried in offices and banks and to materially increase the amount and proportion of investments in real estate mortgages and policy loans. The latter class of investments is entirely beyond the control of the companies, and the meaning and dangers involved in this increase were leading subjects of consideration at our Seventh Annual Meeting.

In view of the fact that life insurance companies held over $1,700,000,000 in real estate mortgages, and their ratio to other assets has been steadily increasing, it seemed desirable to make a critical examination of these securities by a geographical distribution of amounts loaned on farms compared with other real property, average interest rates, etc. To this end we invited the coöperation of the life insurance companies of the country and received responses giving data by States and class of securities from 125 companies and tabulated ourselves the investments of the only large company which declined to report. So our tables include the mortgage loans of 126 companies whose real estate mortgage loans amounted to 97% of all such loans held by American companies. The total loans, divided between farms and other real property, but not separated by States, supplied by 22 other companies, enables us to show the separation between farm and other real property loans of 98¼% of all the outstanding mortgages of American companies. Of these 148 companies, 17 make loans only on farm property, 15 only on real property in cities, towns, or villages, while 116 loan on both farm and city properties. The amount loaned by the 17 farm loan companies on farms is $92,827,709. The amount loaned by the 15 city loan companies is $426,260,163, and the amount loaned by the 116 companies loaning on both is $1,158,014,595. There are 102 American companies whose figures are not included, but as their combined mortgage loans amounted to but $29,262,938, or 1¾% of the total held by all American companies, their absence will not affect materially the completeness of this tabulation of life insurance mortgage investments. The total mortgage loans of these 148 companies amounted to $1,677,102,467 of which $654,650,505.72 or 39.03% were on United States farms; $993,480,170.03 or 59.24% were on other real property in the United States, and the balance—$28,971,792.14 or 1.73%—was

loaned on real estate mortgages in Porto Rico and foreign countries—most of it in Canada.

COMMENTS ON TABLE "A" FOLLOWING

The amount of farm loans and loans on other real property made by insurance companies in the various sections of the country is shown in table "A," with columns showing the percentage loaned on farms and on other real property.

The proportion of mortgage loans on farms varies all the way from thirteen hundredths of one per cent. in the Middle Atlantic group of States to 86% in the Northwestern group, the average for 148 companies in America being 39.72% of their total United States mortgage loans. In general it will be noted that in the Eastern States the amount loaned on farms is negligible, that in the Central Northern and Southern groups the farm loans rise to considerable amounts, but it is in the great Southwestern and Northwestern sections, whose agricultural development in the last fifty years has been so marvelous, that the great bulk of the life insurance farm loans have been placed. On the other hand, we find that over half of the loans on real property, other than farms, have been placed in the populous commercial and manufacturing sections of the New England and Middle Atlantic States, which contain very nearly half of such property values of the entire country.

# Mortgage Deed

MINNESOTA

**This Indenture,** *Made this__________day of__________, in the year one thousand nine hundred and________, between____________________*

________________________________________

________________________________________

*of____________County, State of Minnesota, first parties, and*

**COMPANY,** *(a corporation) of the State of North Dakota, second party:*

**Witnesseth:** *That said first parties in consideration of ____________________ DOLLARS ($________), to them in hand paid by second party, the receipt whereof is hereby acknowledged, do by these presents GRANT, BARGAIN, SELL AND CONVEY to said second party, its successors and assigns, FOREVER, the following described land, being in the County of____________, and State of Minnesota, to-wit:*

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________

*quarter (_____) of Section____________(_____) in Township One Hundred and ____________(_____) North, of Range____________(_____) West of the Fifth Principal Meridian, containing__________ Hundred__________(_____) acres, more or less, according to the United States Government Survey thereof.*

**To Have and to Hold the Same,** *Together with all the hereditaments and appurtenances thereunto belonging or in anywise appertaining, the intention being to convey hereby an absolute title in fee simple including all the rights of homestead, dower, and all contingent rights in and to said premises, to said second party, its successors and assigns, forever. And said first parties covenant with said second party, as follows: FIRST, that they are lawfully seized of said premises; SECOND, that they are of lawful age and have good right to convey said premises; THIRD, that said premises are free from all incumbrances; FOURTH, that _he_ _____lawfully_____ married; and FIFTH, that said second party shall quietly enjoy and possess said premises, and first parties will warrant and defend the title to the same against all lawful claims of all persons whomsoever.*

**Provided, Nevertheless,** *That if said first parties shall pay to second party said principal*

*And said first parties further covenant that they will at all times until this mortgage shall be fully paid and satisfied, keep the buildings on said real estate insured in companies approved by second party, against loss or damage by fire in at least the sum of ____________________ ____________________Dollars, and cause the insurance policies to be made payable, in case of loss, to second party, or its assigns, and deposit such policies with second party, all in such form and manner that said policies may at all times be held as a collateral and further security to the debt hereby secured, and in default of so doing said second party may, at its option, effect such insurance from year to year, or for one or more years at a time, and pay the premiums thereon, and first parties hereby appoint second party their agent to secure said insurance.*

*And said first parties further covenant that they will at all times keep said premises in good repair and suffer no waste thereon, and will pay all taxes, assessments or other charges or liens by virtue of any state, city or county laws whether for local improvements or otherwise, whether public or private, that now are or hereafter may become a lien on any part of said premises before any penalty, interest or other charge shall attach to said property or any part thereof; and in default thereof second party may, at its option, pay and discharge such liens and the receipts of the proper officers for such payments shall be conclusive evidence of the validity and amount of such taxes or assessments.*

*And all sums paid for insurance premiums, taxes, assessments, liens or any other purpose authorized herein shall bear interest at______per cent per annum from the time of payment and shall forthwith be due and payable from said first parties to said second party, and shall be tacked to and impressed as an additional lien upon said premises and shall be secured hereby.*

*If default be made in the payment of said sums of money, or any part thereof, when they respectively become due, or in payment of the taxes, assessments or insurance premiums, or in discharging the liens above referred to, or in the performance of any of the covenants or agreements herein contained, second party may, at its option and without notice to any person, declare said principal sum immediately due and payable; and in any such case said second party, its successors or assigns, is hereby authorized to foreclose, at once, this mortgage and sell said premises at public auction, and convey the same to the purchaser, in fee simple, agreeably to the statutes for such case provided, and out of the proceeds of such sale to retain the principal and interest then due, together with all sums paid for taxes, assessments, insurance, repairs or discharging liens as aforesaid, with interest thereon, and all costs and charges of such foreclosure, including attorney's fees herein provided for, and pay the overplus, if any, to said first parties.*

*Should default be made in any condition of this mortgage prior to the date the principal note is due, or where said principal sum is payable in installments should default be made in any installment, second party may at any time after any such default, without notice, foreclose this mortgage to enforce the payment of all amounts due or in default up to the date of beginning such foreclosure, in the same manner as herein provided, and may subsequently and successively upon each additional default, foreclose the same and sell the lands hereby mortgaged and all the interest of the first parties in the same in the manner hereinbefore provided, and in every such case power of sale is hereby expressly granted to said second party, and such sales for such partial defaults shall in no way be a bar to a final foreclosure for the payment of the principal sum and other amounts due for which this mortgage shall not have been previously foreclosed.*

*In case of default in any of the conditions or covenants of this mortgage said first parties hereby authorize second party immediately to enter and take possession of said premises, and perform all acts requisite for securing all the rents and profits thereof, and preserving the security of this mortgage, such rents and profits to be applied upon said mortgage indebtedness; it being expressly agreed that second party shall be allowed all necessary expenses and reasonable compensation in securing such rents and profits, and preserving said security, and that such possession may be taken either before or after foreclosure proceedings have been instituted.*

# Assignment of Mortgage

**Know All Men by These Presents,** *That the* **COMPANY,**

*a corporation, created and existing under and by virtue of the laws of the State of North Dakota, party of the first part, in consideration of the sum of* ................................

................................*DOLLARS, lawful money of the United States to it in hand paid by*................................

*party of the second part, the receipt whereof is hereby acknowledged, has granted, bargained sold, assigned, transferred and set over, and by these presents does grant, bargain, sell, assign, transfer and set over unto the said party of the second part, a certain INDENTURE OF MORTGAGE bearing date the*..............*day of*..............*A. D. 19*...*, recorded in the office of the Register of Deeds of*..............*County, State of*..............*, on the*........*day of*..............*, A. D. 19*....*, at*.....*o'clock*.....*M. in Book*........*of Mortgage Deeds, on page*..........

*and succeeding pages, made and executed by*................................

*and*................................*his wife, mortgaging to the said party of the first part all that certain tract or parcel of land lying and being in the County of*................................

*and State of*..............*, and described as follows, to-wit. The*................................

................................................................

................................................................

................................................................

................................................................

*quarter* (..............) *of Section number*..............(......)*, in Township number*..............

..............(..............)........ *of Range number*..............(..............)........

*of the*..............*Principal Meridian, together with the bond or obligation, and coupon notes attached thereto, therein described, and the money due or to become due thereon, with interest.*

*TO HAVE AND TO HOLD the same unto the said party of the second part, his heirs, executors, administrators, successors or assigns, for his own use and benefit, subject only to the proviso in the said Indenture of Mortgage mentioned.*

*And the said* *COMPANY does hereby make, constitute and appoint the said party of the second part its true and lawful attorney irrevocably, in its name or otherwise, to have, use and take all lawful ways and means for the recovery of said money and interest, and in case of payment to discharge the said mortgage of record, as fully as it might or could do if these presents were not made.*

*And the* *COMPANY does hereby covenant to and with said party of the second part, that there is now due and owing upon the said bond and mortgage the sum of*..............

................................*DOLLARS, with interest upon the same at the rate of*........*per cent per annum from the*..........*day of*..............*A. D. 19*....*,*

*and that it has a good right to sell, transfer and assign the same as aforesaid.*

*IN WITNESS WHEREOF, The* *COMPANY has signed and delivered these presents by its Vice-President and Assistant Secretary this*..............*day of*..............

*A. D. 19*....*, with the seal of the corporation affixed.*

*the payment of all amounts due or in default up to the date of beginning such foreclosure, in the same*

Missing Page

## TABLE "A"

## MORTGAGE LOANS ON FARMS AND OTHER REAL PROPERTY

Held by 126 American Life Insurance Companies in the Various Groups of States and in Foreign Countries, December 31,1914

| | Farm Loans | % of Total | Loans on Other Real Property | % of Total | Total Real Estate Mortgage Holdings |
|---|---|---|---|---|---|
| *New England:* | | | | | |
| Maine, N. H., Vermont, Mass., R. I., Connecticut | $ 104,875.00 | .56 | $ 18,387,384.79 | 99.44 | $ 18,492,259.79 |
| *Middle Atlantic:* | | | | | |
| New York, New Jersey, Pa., Del., Maryland, District of Columbia | 827,171.47 | .13 | 598,336,948.65 | 99.87 | 599,164,120.12 |
| *Central Northern:* | | | | | |
| Ohio, Michigan, Indiana, Illinois, Wisconsin....... | 116,800,717.55 | 49.63 | 118,533,747.23 | 50.37 | 235,334,464.78 |
| *South Atlantic:* | | | | | |
| Va., W. Va., N. C., S. C., Ga., Florida........... | 20,433,173.11 | 31.70 | 43,982,393.37 | 68.30 | 64,385,566.48 |
| *Gulf and Mississippi Valley:* | | | | | |
| Ala., Miss., Tenn., Ky., Louisiana ............... | 20,870,348.27 | 44.02 | 26,543,483.69 | 55.98 | 47,413,831.96 |
| *Southwestern:* | | | | | |
| Mo., Ark., Texas, Kans., Colo., New Mexico, Okla. | 187,204,378.15 | 76.05 | 58,966,102.81 | 23.95 | 246,170,480.96 |
| *Northwestern:* | | | | | |
| Iowa, Minn., Neb., N. D., S. D., Wyoming, Mont. | 284,118,815.99 | 86.05 | 46,094,188.83 | 13.95 | 330,213,004.82 |
| *Pacific:* | | | | | |
| Wash., Oregon, Calif., Nev., Idaho, Arizona, Utah | 16,601,908.04 | 19.72 | 67,603,321.44 | 80.28 | 84,205,229.48 |
| Total .................................... | $646,961,387.58 | 39.80 | $ 978,447,570.81 | 60.20 | $1,625,408,958.39 |
| *22 Companies' Totals ......................... | 7,689,118.14 | 33.84 | 15,032,599.22 | 66.16 | 22,721,717.36 |
| TOTAL AMERICAN ........................... | $654,650,505.72 | 39.72 | $ 993,480,170.03 | 60.28 | $1,648,130,675.75 |
| *Porto Rico and Foreign:* | | | | | |
| Porto Rico, Austria, Australia, Canada, Cuba, France, Germany, Mexico | 185,836.30 | 0.64 | 28,785,955.84 | 99.36 | 28,971,792.14 |
| GRAND TOTAL.............................. | $654,836,342.02 | 39.04 | $1,022,266,125.87 | 60.96 | $1,677,102,467.89 |

*Reported to us in aggregate separations of farm loans from other loans but not in separations by States or groups of States.

#### COMMENTS ON TABLE "B" FOLLOWING

The relation of farm loans made by life insurance companies to total farm loans as given by the United States Census of 1910 (the latest available estimate) is shown in table "B."

It should be said in explanation of the amount of farm loans given by the Census of 1910, that the enumerators included the data only of mortgaged farms *occupied by the owner*, so that mortgages upon rented farms were left out.

It contains also a column showing the savings bank deposits in each State for reference later.

A very interesting fact is brought out by this table in comparing it with table "A," viz., that while the amount of farm mortgages reported by the Census in the New England and Middle Atlantic States is more than twice as great as the amount in the South Atlantic and Gulf and Mississippi Valley combined, the life insurance companies have loaned less than $1,000,000 in the New England and Middle Atlantic States, while they have loaned over $40,000,000 in the South Atlantic and the Gulf and Mississippi Valley. The obvious explanation is furnished by the column showing savings bank deposits. The local accumulations of savings bank and private capital have taken care of the demand for farm loans in the older and more populous sections of the country, leaving the life insurance funds contributed in large part by these sections free to flow under economic law into the newer sections where the local supply of capital is inadequate to meet the needs of rapidly developing communities. How great this assistance of life insurance companies has been to these sections is shown by the fact that their outstanding loans December 31, 1914, amounted to 64½% of all the farm loans reported by the Census of 1910 in the Northwest, 59% in the Southwest, 37% in the South Atlantic, and 30% in the Gulf and Mississippi Valley States.

## TABLE "B"

Amount of Total Outstanding Farm Mortgages in the United States as Given by the Census of 1910, Amount of Farm Mortgages Held by 126 American Life Insurance Companies December 31, 1914, and Amount of Savings Bank Deposits June 30, 1914

| | Farm Mortgages Reported by U. S. Census, 1910 | Savings Bank Deposits, June 30, 1914 | Life Insurance Farm Loans, 1914 | |
|---|---|---|---|---|
| | | | Amount | Per Cent. of Census Figures |
| *New England:* | | | | |
| Maine, N. H., Vermont, Mass., R. I., | $ 58,535,508.00 | $1,543,121,525.30 | $ 104,875.00 | .18 |
| *Middle Atlantic:* | | | | |
| New York, New Jersey, Pa., Del., Maryland, District of Columbia | 197,124,813.00 | 2,253,737,250.83 | 827,171.47 | .42 |
| *Central Northern:* | | | | |
| Ohio, Mich., Indiana, Illinois, Wisconsin | 459,886,968.00 | 279,830,222.71 | 116,800,717.55 | 25.39 |
| *South Atlantic:* | | | | |
| Va., W. Va., N. C., S. C., Ga., Florida | 54,798,664.00 | 51,600,550.49 | 20,433,173.11 | 37.29 |
| *Gulf and Mississippi Valley:* | | | | |
| Ala., Miss., Tenn., Ky., Louisiana..... | 68,719,944.00 | 49,309,863.17 | 20,870,348.27 | 30.37 |
| *Southwestern:* | | | | |
| Missouri, Arkansas, Texas, Kans., Colo., New Mexico, Okla. | 317,376,816.00 | 10,314,118.02 | 187,204,378.15 | 58.98 |
| *Northwestern:* | | | | |
| Iowa, Minn., Neb., N. D., S. D., Wyoming, Montana | 440,044,686.00 | 257,295,956.26 | 284,118,815.99 | 64.5 |
| *Pacific:* | | | | |
| Wash., Oregon, Calif., Nev., Idaho, Arizona, Utah | 129,685,452.00 | 500,507,745.03 | 16,601,908.04 | 12.8 |
| TOTAL AMERICAN.................. | $1,726,172,851.00 | $4,945,717,231.81 | $647,083,487.58 | 37.48 |

COMMENTS ON TABLE "C" FOLLOWING

In further elucidation of the relations between the farm and city loans of the various States and sections, we submit table "C," showing the total value of farm lands and improvements, and of all other lands and improvements in each geographical section of the country.

An explanation of the somewhat mixed character of this table as to dates is necessary. The United States Census in 1910 made a canvass in order to learn the value of farm lands and improvements. No such canvass was made to show the value of city, town, and village lands or of any real property excepting farms. The Census Bureau has, however, made an estimate of the total value of *all* real property and improvements for the year 1912. This tabulation included farms but did not make any separation of them from other properties. The only way, therefore, in which an approximate estimate of the value of real property, other than farms, can be arrived at, is by deducting the 1910 value of farm lands and improvements, from the 1912 estimates of combined values. The results, while not strictly correct, are the best estimates obtainable and do show approximately the ratio of farm values to other real property values as they exist to-day.

## TABLE "C"

Total Value of All Real Property and Improvements as Estimated by the United States Census Bureau, 1912; Value of Farm Lands and Improvements as Given by the United States Census for 1910, and Value of All Real Property Other Than Farms as Found by Deducting Farm Values of 1910 from the Total Values of 1912.

| | Total Real Property and Improvements | Farm Lands and Improvements | | All Other Real Property | |
|---|---|---|---|---|---|
| | | Amount | Per Cent. | Amount | Per Cent. |
| *New England:* | | | | | |
| Maine, N. H., Vermont, Mass., R. I., Conn. | $ 7,248,043,478 | $ 718,544,808 | 9.9 | $ 6,529,498,670 | 90.1 |
| *Middle Atlantic:* | | | | | |
| New York, New Jersey, Pa., Del., Md., District of Columbia | 32,735,357,510 | 2,746,073,552 | 8.2 | 29,989,283,958 | 91.8 |
| *Central Northern:* | | | | | |
| Ohio, Mich., Ind., Ill., Wisconsin | 23,748,446,047 | 8,873,991,594 | 37.3 | 14,874,454,453 | 62.7 |
| *South Atlantic:* | | | | | |
| Va., W. Va., N. C., S. C., Ga., Florida | 5,116,668,591 | 2,183,312,025 | 42.7 | 2,933,356,566 | 57.3 |
| *Gulf and Mississippi Valley:* | | | | | |
| Ala., Miss., Tenn., Ky., Louisiana | 4,410,620,949 | 1,975,942,289 | 44.8 | 2,434,678,660 | 55.2 |
| *Southwestern:* | | | | | |
| Missouri, Arkansas, Texas, Kans., Colo., New Mexico, Okla. | 14,977,905,972 | 6,865,162,850 | 45.8 | 8,112,743,122 | 54.2 |
| *Northwestern:* | | | | | |
| Iowa, Minn., Neb., N. D., S. D., Wyoming, Montana | 14,138,255,355 | 8,510,446,519 | 64.2 | 5,627,808,836 | 35.8 |
| *Pacific:* | | | | | |
| Wash., Oregon, Calif., Nev., Idaho, Arizona, Utah | 9,341,833,071 | 2,927,652,060 | 31.9 | 6,414,181,011 | 68.1 |
| TOTAL AMERICAN ............ | $111,717,130,973 | $34,801,125,697 | 31.4 | $76,916,005,276 | 68.6 |

COMMENTS ON TABLE "D" FOLLOWING

It was shown by table "A" that about 40% of the mortgages held by life insurance companies were on farms, while 60% covered other real property. This might suggest the thought that life insurance funds had been invested disproportionately as between these two classes of securities. An examination of table "D" shows such not to have been the case.

This table gives the value of all farm lands reported by the Census of 1910 in the several sections of the country, together with the amount of all real property loans therein held by life insurance companies in 1914. It gives also the per cent. of the values so loaned, separated as to loans on farms and other real property. It will be noted that the average per cent. of values loaned on farms for the whole country is 1.859%, while on the other hand the companies have loaned but 1.259% of the values of other real property.

The economic conditions of rich soil and rapid development, which have caused such a phenomenal growth in the agricultural progress of the Northwest, naturally attracted investment of life insurance funds in that section. The table shows that companies have loaned about 3⅓% of the estimated value of farm lands and buildings in that section. The Southwestern comes next and the Gulf and Mississippi Valley third in the per cent. of life insurance funds loaned on the values of farm lands.

Turning to the city and village loans, we find that the great manufacturing and commercial section of the Middle Atlantic States has naturally attracted the greatest amount of such loans. While companies have loaned to the amount of 3⅓% of the estimated farm values in the great agricultural section, they have loaned less than 2% in the manufacturing and commercial sections on other real property values. The South Atlantic comes next in high ratio of city and village loans, and the reason why is easily understood when one considers the great commercial and manufacturing development of this section during the last twenty-five years. The rebuilding of San Francisco and the rapid growth of Los Angeles, Seattle, and other Pacific Coast cities naturally results in a higher ratio for that section than for the adjacent groups of States.

NUMBER

DOLLARS

# REAL ESTATE FIRST MORTGAGE NOTE

Minneapolis, Minnesota, ____________ 19___

On the ________ day of ______________ A.D. 19___

for value received, I promise to pay to the order of

at its office in the City of Minneapolis, Minnesota, the principal sum of ______________________________ Dollars (with exchange on New York,) with interest thereon at the rate of ________ per cent per annum, from date until maturity, payable ______ annually according to the tenor of __________ interest notes annexed hereto and bearing even date herewith, both principal and interest to be paid in gold coin of the United States of the present standard of weight and fineness. If default be made in the payment of any interest note, or any portion thereof at the time the same becomes

$ ________ Minneapolis, Minnesota, ________ 19___

On the ____ day of ________ A.D. 19__ for value received I promise to pay to Bearer the sum of ________ Dollars, with exchange on New York City at the office of ________ in Minneapolis, Minnesota, with interest at the rate of ____ per cent per annum after due until paid. This coupon note is given for an installment of interest due at the maturity hereof upon my certain principal note of even date and number herewith executed by me, payable to the order of said ________ Company.

6

Loan No. ________

---

$ ________ Minneapolis, Minnesota, ________ 19___

On the ____ day of ________ A.D. 19__ for value received I promise to pay to Bearer the sum of ________ Dollars, with exchange on New York City at the office of ________ in Minneapolis, Minnesota, with interest at the rate of ____ per cent per annum after due until paid. This coupon note is given for an installment of interest due at the maturity hereof upon my certain principal note of even date and number herewith executed by me, payable to the order of said ________ Company.

5

Loan No. ________

---

$ ________ Minneapolis, Minnesota, ________ 19___

On the first day of ________ A.D. 19__ for value received I promise to pay to Bearer the sum of ________ Dollars, with exchange on New York City at the office of ________ in Minneapolis, Minnesota, with interest at the rate of ____ per cent per annum after due until paid. This coupon note is given for an installment of interest due at the maturity hereof upon my certain principal note of even date and number herewith executed by me, payable to the order of said ________ Company.

4

Loan No. ________

---

$ ________ Minneapolis, Minnesota, ________ 19___

On the first day of ________ A.D. 19__ for value received I promise to pay to Bearer the sum of ________ Dollars, with exchange on New York City at the office of ________ in Minneapolis, Minnesota, with interest at the rate of ____ per cent per annum after due until paid. This coupon note is given for an installment of interest due at the maturity hereof upon my certain principal note of even date and number herewith executed by me, payable to the order of said ________ Company.

3

Loan No. ________

---

$ ________ Minneapolis, Minnesota, ________ 19___

On the first day of ________ A.D. 19__ for value received I promise to pay to Bearer the sum of ________ Dollars, with exchange on New York City

TABLE "D"

| | Estimated Value of Farm Lands and Buildings U. S. Census, 1910 | Loaned on Farms by Life Companies, 1914 | | Estimated Value of *All* Real Property, 1912, *Less Farm Values*, 1910 | Loaned on Real Property Other Than Farms by Life Companies, 1914 | |
|---|---|---|---|---|---|---|
| | | Amount | Per Cent. | | Amount | Per Cent. |
| New England | $ 718,544,808 | $ 104,875.00 | .014 | $ 6,529,498,670 | $ 18,387,384.79 | .281 |
| Middle Atlantic | 2,746,073,552 | 827,171.47 | .030 | 29,989,283,958 | 598,336,948.65 | 1.995 |
| Central Northern | 8,873,991,594 | 116,800,717.55 | .131 | 14,874,454,453 | 118,533,747.23 | .796 |
| South Atlantic | 2,183,312,025 | 20,433,173.11 | .935 | 2,933,356,566 | 43,982,393.37 | 1.500 |
| Gulf and Mississippi Valley | 1,975,942,289 | 20,870,348.27 | 1.056 | 2,434,678,660 | 26,543,483.69 | 1.090 |
| Southwestern | 6,865,162,850 | 187,204,378.15 | 2.726 | 8,112,743,122 | 58,966,102.81 | .727 |
| Northwestern | 8,510,446,519 | 284,118,815.99 | 3.338 | 5,627,808,836 | 46,094,188.83 | .819 |
| Pacific | 2,927,652,060 | 16,601,908.04 | .567 | 6,414,181,011 | 67,603,321.44 | 1.053 |
| TOTALS | $34,801,125,697 | $647,083,487.58 | | $76,916,005,276 | $978,447,570.81 | |
| AVERAGES | | | 1.859 | | | 1.259 |

COMMENTS ON TABLE "E" FOLLOWING

The relation between insurance company loans and property values is shown in another way in table "E." It will be seen that while life insurance companies have made nearly 40% of their mortgage loans on farms, only a little over 30% of the total realty values of the country are in farms, so that favoritism, if any, has been shown in behalf of farm loans as compared with loans on other kinds of real property.

TABLE "E"

| | Farm Realty | | Other Real Property | |
|---|---|---|---|---|
| | Per Cent. Realty in Farms | Per Cent. of Life Insurance Loans Made on Farms | Per Cent. of Total Realty Other Than Farms | Per Cent. of Life Insurance Loans Made on Other Than Farm Property |
| New England ..... | 9.9 | .56 | 90.1 | 99.44 |
| Middle Atlantic ... | 8.2 | .13 | 91.8 | 99.87 |
| Central Northern . | 37.3 | 49.63 | 62.7 | 50.37 |
| South Atlantic .... | 42.7 | 31.70 | 57.3 | 68.30 |
| Gulf & Miss. Valley | 44.8 | 44.02 | 55.2 | 55.98 |
| Southwestern ..... | 45.8 | 76.05 | 54.2 | 23.95 |
| Northwestern ..... | 64.2 | 86.05 | 35.8 | 13.95 |
| Pacific ........... | 31.9 | 19.72 | 68.1 | 80.28 |
| AVERAGES..... | 31.4 | 38.81 | 68.6 | 60.19 |

COMMENTS ON TABLE "F" FOLLOWING

In view of this preference for farm loans on the part of life insurance companies collectively, it seems desirable to examine in detail the localities in which such loans have been placed, the conditions with regard to farm values, and the average rates of interest obtained. These facts are contained in table "F."

The first fact which attracts attention in this table is the degree to which the arrangement of States in the order of amount loaned on farms by life insurance companies corresponds to what would be an arrangement in the order of their total farm values. In the first eight States, each of which has loans to the amount of $30,000,000 or over, only two are out of their natural order as to total farm values. Illinois, which in point of farm values stands

first, is fifth in the amount of farm loans. Texas, which is third in amount of farm values, is eighth in the amount of farm loans. Furthermore, it is highest among the leading States in point of interest rate, the rate being over $1\frac{1}{2}\%$ higher than in any other of the first eight States.

After the first eight States the order of States and the amount of farm loans do not follow so closely the order of amount of farm values, though there is a close connection between the two throughout the list, a few notable exceptions standing out prominently, as for example, New York, which though one of the leading States in farm values, is nearly at the end of the list in the amount of farm loans.

A careful examination of the table will show a close and apparently a very direct connection between high average farm values and low interest rates. It appears that there are thirty-one States in which farm land values average $20 or over per acre. In eighteen of these the average interest rate on farm loans is 6 per cent. or less. There are seventeen States in which farm values average less than twenty dollars per acre. In eleven of these States the average interest rate on farm loan is over six per cent.

Other things being equal, the States in which up-to-date enterprising farming leads to good buildings, well-stocked farms, good crops (farming with profit), are those which attract capital and secure low interest rates. If "other things" are not equal, if there are antiquated laws as to titles, transfers, and foreclosures, or statutes intended to circumvent the operation of economic law, the flow of capital may easily be turned aside and interest rates thereby increased.

The table following shows the amount of mortgage loans on farm property held December 31, 1914, by 126 American life insurance companies whose total mortgage loans amounted to 97 per cent. of all mortgage loans held by American companies.

TABLE "F"

| States, in Order of Amount Loaned | Farm Loans by Insurance Companies, December 31, 1914 | | Estimated Farm Values, U. S. Census, 1910 | |
|---|---|---|---|---|
| | Amount | Average Interest Rate | Land Average Per Acre | All Farm Property |
| Iowa | $139,511,101 | 5.32 | $82.58 | $ 3,257,379,400 |
| Nebraska | 62,390,393 | 5.34 | 41.80 | 1,813,346,935 |
| Kansas | 60,395,448 | 5.46 | 35.45 | 1,737,556,172 |
| Missouri | 58,406,800 | 5.35 | 41.80 | 1,716,204,386 |
| Illinois | 49,941,759 | 5.16 | 95.02 | 3,522,792,570 |
| Indiana | 47,014,148 | 5.31 | 62.36 | 1,594,275,596 |
| Minnesota | 33,981,293 | 5.36 | 36.82 | 1,262,441,426 |
| Texas | 32,242,856 | 6.99 | 14.53 | 1,843,208,395 |
| Oklahoma | 28,056,308 | 5.91 | 22.49 | 738,677,224 |
| South Dakota | 26,950,777 | 5.44 | 34.69 | 1,005,080,807 |
| North Dakota | 18,142,658 | 5.88 | 25.69 | 822,656,744 |
| Ohio | 16,588,937 | 5.30 | 53.34 | 1,654,152,406 |
| Georgia | 14,828,323 | 6.28 | 13.74 | 479,204,332 |
| Tennessee | 9,386,015 | 5.56 | 18.53 | 480,522,587 |
| California | 8,736,255 | 6.42 | 47.16 | 1,450,601,488 |
| Kentucky | 6,282,692 | 5.41 | 21.83 | 635,459,372 |
| Arkansas | 3,851,605 | 6.99 | 14.13 | 309,166,813 |
| South Carolina | 3,377,477 | 6.47 | 19.89 | 332,888,081 |
| Colorado | 2,945,316 | 6.92 | 26.81 | 408,518,861 |
| Montana | 2,900,458 | 7.29 | 16.74 | 251,625,930 |
| Idaho | 2,754,254 | 8.53 | 41.63 | 245,065,825 |
| Mississippi | 2,719,824 | 6.99 | 13.69 | 334,162,289 |
| Washington | 2,391,781 | 6.97 | 44.18 | 571,968,457 |
| Wisconsin | 2,003,744 | 5.53 | 43.30 | 1,201,632,723 |
| North Carolina | 1,475,010 | 5.79 | 15.29 | 456,624,607 |
| Louisiana | 1,379,502 | 7.64 | 17.99 | 237,544,450 |
| New Mexico | 1,306,042 | 7.55 | 8.77 | 111,830,999 |
| Michigan | 1,252,126 | 5.41 | 32.48 | 901,138,299 |
| Utah | 1,192,602 | 8.74 | 29.28 | 117,545,332 |
| Oregon | 1,107,912 | 6.66 | 35.23 | 455,576,309 |
| Alabama | 1,102,313 | 7.34 | 10.46 | 288,253,591 |
| Virginia | 645,450 | 6.00 | 20.24 | 532,058,062 |
| Maryland | 423,000 | 5.84 | 32.32 | 241,737,123 |
| Arizona | 407,602 | 7.20 | 33.97 | 47,285,310 |
| Pennsylvania | 331,156 | 5.75 | 33.92 | 1,041,068,755 |
| Wyoming | 241,933 | 7.71 | 10.41 | 97,915,277 |
| Connecticut | 75,050 | 5.26 | 33.03 | 138,319,221 |
| Florida | 66,004 | 6.00 | 17.84 | 118,145,989 |
| Delaware | 45,100 | 5.97 | 33.63 | 53,155,983 |
| West Virginia | 40,907 | 5.70 | 20.65 | 264,390,954 |
| New Jersey | 16,965 | 6.00 | 48.23 | 217,134,519 |
| Vermont | 13,775 | 5.26 | 12.52 | 112,588,275 |
| Nevada | 11,500 | 8.00 | 12.99 | 39,609,339 |
| New York | 10,950 | 5.56 | 32.13 | 1,184,745,829 |
| Massachusetts | 10,100 | 5.19 | 36.69 | 194,168,765 |
| Maine | 5,950 | 5.80 | 13.73 | 159,619,626 |
| New Hampshire | | | 13.70 | 85,916,061 |
| Rhode Island | | | 33.86 | 27,932,860 |
| TOTALS | $646,961,371 | | | $34,801,125,697 |
| AVERAGES | | 5.55 | $32.40 | |

## Title Agreement and Receipt for Abstract.

## (NAME OF COMPANY)

---

*To* ______________________________________________

______________________________________________ *or assigns.*

*In consideration of the purchase by you from us of that certain Mortgage No. ____________ for $____________, executed by ______________________________ ______________________________, as mortgagor, in favor of the undersigned,* ***(NAME OF COMPANY)*** *and recorded in Book ____________ of Mortgages, Page ________, in the office of the Register of Deeds in and for ____________________ County, State of ____________________, we hereby agree to repurchase the said mortgage and notes secured thereby and repay to you the amount of your investment therein, with interest thereon to date of repayment, at the rate at which said mortgage was sold, in case said mortgage is at any time found to be not a first lien upon the premises described in said mortgage, or if the title to said premises was not merchantable in the mortgagor, making the mortgage herein described a first lien upon the premises.*

*This is conditioned upon your agreement to give to us immediate notice thereof should the validity of the mortgage or of the title be called in question.*

*This will also act as a receipt to you for the abstract of title covering the land described in the mortgage, and we will be pleased to deliver the abstract to you upon request.*

***(NAME OF COMPANY)***

*Dated* ______________________ *By* ______________________

*Vice-President.*

COMMENTS ON TABLE "G" FOLLOWING

The striking fact brought out by table "G" is that while the average rate of interest on farm loans in each group of States is higher than the average rate of interest on loans secured by other real property, in the great Central Northern and Northwestern sections, where the farm values are highest, the difference between these two classes of loans is smallest. . . .

While we have not been able to prepare complete statistics on the subject, an examination of the total mortgage loans of nine companies, seven of which loan chiefly or wholly on farm property, compared with nine other companies, seven of which loan wholly or chiefly on city property, shows that the average size of farm loans is about $2,500, while the average size of city loans is about $75,000. When it is considered that the work incident to inspecting the property, examining titles, preparing the papers, collecting interest, seeing that taxes are paid, etc., is much the same for each loan, regardless of its size, we find a very obvious economic explanation of why farm loans, generally speaking, are required to pay a somewhat higher rate of interest than loans upon other kinds of real property.

TABLE "G"

| | Loaned on Farms by Life Companies, 1914 | Average Interest Rate on Farm Loans | Amount Loaned on Real Property Other Than Farms by Life Companies, 1914 | Average Interest Rate on Other Real Property | Combined Average Both Classes |
|---|---|---|---|---|---|
| New England | $104,875.00 | 5.00 | $18,387,384.79 | 4.68 | 4.70 |
| Middle Atlantic .... | 827,171.47 | 5.79 | 598,336,948.65 | 5.03 | 5.03 |
| Central Northern . | 116,800,717.55 | 5.20 | 118,533,747.23 | 5.00 | 5.13 |
| South Atlantic | 20,433,173.11 | 6.00 | 43,982,393.37 | 5.58 | 5.74 |
| Gulf and Miss. Valley.... | 20,870,348.27 | 5.89 | 26,543,483.69 | 5.49 | 5.72 |
| Southwestern | 187,204,378.15 | 5.74 | 58,966,102.81 | 5.23 | 5.62 |
| Northwestern | 284,118,815.99 | 5.40 | 46,094,188.83 | 5.29 | 5.38 |
| Pacific...... | 16,601,908.04 | 7.00 | 67,603,321.44 | 5.24 | 5.94 |
| TOTALS ... | $647,083,487.58 | | $978,447,570.81 | | |
| AVERAGES. | | 5.55 | | 5.13 | 5.29 |

COMMENTS ON TABLE "H" FOLLOWING

We have already seen that as a general rule those States having high interest rates are the ones having comparatively low average farm values. Therefore, it seems reasonable to predict for these States a reduction in average interest rates as their farm values rise, as they surely must in times to come.

There is, furthermore, another element which tends to bring down interest rates, even where there is little change in land values, and that is the natural tendency of capital to flow toward those States where high interest rates prevail. We have no complete statistics showing a separation of farm loans from other kinds of earlier date than for the year 1914, but we are able to make a comparison as to the increase in mortgage loans of *all classes* in different sections of the country between 1911 and 1914, as shown in table "H." These figures are taken from company reports to us showing the geographical distribution of investments of thirty-four of the leading American companies whose assets amounted to about 90 per cent. of the total assets of all American companies. It will be noted from this tabulation that the three sections showing the highest ratios of increase in mortgage loans during this period of three years are the three sections whose combined average interest rates shown in table "G" are highest.

## TABLE "H"

Increase of Mortgage Loans Held by 34 Leading American Life Insurance Companies During the Last Three Years.

| | Dec. 31, 1911 | Dec. 31, 1914 | Increase | Per Cent. Increase |
|---|---|---|---|---|
| New England.. | $10,035,604.17 | $12,079,867.25 | $2,044,263.08 | 20.79 |
| Middle Atlantic | 520,794,716.89 | 588,467,448.15 | 67,672,731.26 | 12.34 |
| Central Northern | 156,783,458.29 | 187,315,645.75 | 30,532,187.46 | 19.97 |
| South Atlantic. | 24,854,150.08 | 56,108,044.06 | 31,253,893.98 | 125.74 |
| Gulf and Miss. Valley...... | 33,182,738.06 | 45,064,788.70 | 11,882,050.64 | 35.79 |
| Southwestern . | 160,225,259.63 | 196,205,329.02 | 35,980,069.39 | 22.45 |
| Northwestern.. | 211,079,949.58 | 260,709,557.24 | 49,629,607.66 | 23.49 |
| Pacific ....... | 54,986,984.20 | 77,807,445.02 | 22,820,460.82 | 41.50 |
| TOTALS...... | $1,171,942,860.90 | $1,423,758,125.19 | $251,815,264.29 | 21.49 |

### FARM MORTGAGES HELD BY BANKS

While there are no statistics extant showing the amount of mortgage loans on farm property in each State made by banks, we have in the Report of the Comptroller of the Currency a statement showing separately the amount of loans secured by farms and other real property in the entire country held by all banks and trust companies, June 30, 1914, as follows:

AMOUNT OF LOANS OUTSTANDING JUNE 30, 1914, IN ALL U. S. REPORTING BANKS SECURED BY MORTGAGES ON REAL PROPERTY

| | Secured by Farms | Secured by Other Real Property |
|---|---|---|
| 14,512 State Banks | $258,700,000.00 | $280,700,000.00 |
| 634 Mutual Savings Banks | 88,100,000.00 | 1,809,500,000.00 |
| 1,466 Stock Savings Banks | 81,700,000.00 | 397,200,000.00 |
| 1,064 Private Banks | 16,900,000.00 | 9,700,000.00 |
| 1,564 Loan and Trust Companies | 96,700,000.00 | 468,800,000.00 |
| 7,525 National Banks | 000.00 | 000.00 |
| Total (26,765 Banks) | $542,100,000.00 | $2,965,900,000.00 |
| Loans Held by 148 Life Insurance Companies | $654,650,505.72 | $993,480,170.03 |

It appears, therefore, that life insurance companies, collectively, are very much the largest owners of farm mortgages in this country, their holdings exceeding by about 20 per cent. the total farm loans held by the 26,765 banks of this country. As to the farm loans reported by the United States Census in 1910, it would appear that the life insurance companies hold about 37½ per cent., the banks about 31½ per cent., private investors, colleges, and other institutions combined about 31 per cent. As we have already noted, life insurance companies have placed nearly 40 per cent. of their mortgage loans on farm property while the *value* of farm property is only a little over 30 per cent. of the value of *all* real property of the country. Any preference they have shown for farm loans, however, is more than offset by the preference the banks have shown for city loans, about 84 per cent. of their

mortgages being on city and village property, which comprises less than 70 per cent. of the total real estate values of the country.

SUMMARY

First: The total wealth of the country has substantially doubled during the ten years ending December 31, 1914. Likewise, the investment funds held by life insurance companies have nearly doubled during the same period.

Second: The real estate mortgages held by life insurance companies have nearly trebled in amount during this ten-year period, thus showing a tendency to increase both in amount and in their ratio to other assets.

Third: Life insurance companies are now the most important of all agencies making farm loans in this country. They have loaned over $654,000,000 on farm mortgages at an average interest rate of 5.55 per cent.

Fourth: In sections of the country which are chiefly commercial and manufacturing the tendency seems to have been to loan in cities and villages a larger percentage of values than upon farm lands in such sections. In sections chiefly agricultural the tendency has been to loan on farms a larger percentage of values than on city and village properties in such sections.

Fifth: The amount of farm mortgages held by life insurance companies is a higher percentage of the estimated farm values of the country than their holdings of city and village mortgages are of city and village values.

Sixth: In sections of the country where savings bank accumulations are greatest, life insurance companies have loaned the least on farms. Where savings bank funds are comparatively small, life insurance companies have loaned most on farms.

Seventh: The general rule seems to be that average interest rates are closely related to the average acreage value of farm lands, high farm values commanding low interest rates and conversely low farm values high interest rates.

Eighth: Where unwise laws or other conditions restrict abnormally the amount of capital seeking investment in a given section, interest rates tend to rise above the level which the value of the land would otherwise command.

Ninth: City and village loans held by life insurance companies average in size thirty times as large as farm loans average and command in all sections of the country a somewhat lower average interest rate. The difference, however, is less than one per cent. everywhere except in the Pacific group of States. In the Northwestern States farm and other real estate loans come nearest to being on a parity in the matter of interest rates.

Tenth: During the last three years mortgage investments of life insurance companies have increased most rapidly in those sections where interest rates were high as compared with other sections of the country. They have increased least where interest rates were comparatively low.

## FARM MORTGAGE INVESTMENTS OF CANADIAN INSURANCE COMPANIES

Extracts from address of E. M. Saunders, Esq., Treasurer of the Canada Life Assurance Company, Toronto, before the Ninth Annual Meeting of the Association of Life Insurance Presidents.

Until about twenty years ago, the eastern half of Canada was the only reliable Canadian field for investments in farm mortgage loans, but owing to the prosperity of the farmers in this part of Canada, the loan and insurance companies were about that time compelled to turn their attention westward for this class of investments.

The Provinces of Manitoba, Saskatchewan, and Alberta, bounded on the east by the Great Lakes and on the west by the Rocky Mountains, were being rapidly settled by eastern Canadians and immigrants from all over the world and offered excellent inducements for the investment of monies in farm mortgages.

The life insurance companies, by investing in mortgage loans and municipal debentures, have played no small part in helping to develop this Western country. For many years they have been lending money in the West, and some of them have now loaning offices located at central points in Manitoba, Saskatchewan, and Alberta.

A comparison of investments by life insurance companies in mortgage loans in Canada as on the 31st of December, 1904, and

1914, would indicate that these securities are now regarded more favorably than they were ten years ago:

| | Assets of Life Companies | Mortgage Loans | Loans to Assets |
|---|---|---|---|
| Dec. 31, '14 ........... | $397,837,322 | $127,488,549 | 32% |
| Dec. 31, '04 ........... | 166,348,109 | 35,200,235 | 21% |
| Inc. in 10 Yrs.......... | $231,489,213 | $ 92,288,314 | 11% |

In conclusion, I feel quite safe in making the statement that Western Canada offers a good field for investment in loans on farm properties at conservative valuations, and that these farm valuations will, in the course of a few years, considerably appreciate and thereby improve the value of these investments.

The Editors of this Handbook have addressed letters of inquiry to the largest of the insurance companies known to be investing in farm mortgages. The replies of those who responded to the questions asked may be summarized as shown in table on p. 227.

## EXPERIENCE OF BANKS

The experience of the banks of the Eastern States, which would most naturally seek an outlet for funds in out-of-state mortgages, has been very limited. Vermont banks furnish the outstanding exceptions. Their experience is illuminating, as reported to the Ninth Annual Meeting of Life Insurance Presidents:

"Extract from address of Honorable Frank C. Williams, Banking Commissioner of the State of Vermont:

"I am not interested in the insurance business. My work is entirely the supervision of the banks chartered by the State of Vermont, and other financial institutions chartered by that State. For a good many years the laws of the State of Vermont have allowed the banks to invest in farm mortgages anywhere in the world.

"Under the operation of that law, when I was appointed Bank Commissioner eight years ago, the banks of Vermont had about $22,000,000 invested in farm loans outside of Vermont. To-day they have nearly $45,000,000 invested in such loans, out of a total

(Continued on page 228)

## INSURANCE COMPANIES

| Total Amount Invested | Present Holdings | No. Foreclosures | No. of States | Net Earning Rate vs. Bonds | Average Loan | % land Value | Years Exp. |
|---|---|---|---|---|---|---|---|
| (Cents Omitted) | (Cents Omitted) | | | | | | |
| $203,383,705 | $57,226,092 | *928 | 12 | 5½ 4½ | $3,100 | .40 | 52 |
| ........... | 10,892,127 | 0 | 11 | 5.48 4.58 | 3,700 | .40 | 30 |
| 4,344,955 | 3,537,134 | 4 | 16 | 5.48 4.95 | 4,200 | .40 | 15 |
| 56,608,927 | 27,603,355 | 1 | Not Stated | 5.29 4.14 | 2,621 | .50 | 16 |
| 9,476,710 | 7,930,865 | 0 | Not Stated | 5.37 4.91 | 4,000 | .40 | 3 |
| 163,479,727 | 76,798,531 | *936 | 34 | 5.72 2 | 2,100 | .50 | 49 |
| 8,760,642 | 8,664,884 | 0 | Not Stated | 5.6 4.2 | 5,000 | .50 | 3 |
| 125,000,000 | 21,156,359 | None in 15 yrs. | 14 | 5.76 4.46 | 2,468 | .40 | 42 |
| 100,454,765 | 65,540,630 | 1 | 18 | Not Stated | 3,741 | .50 | 18 |

*The large number of foreclosures reported by these two companies is undoubtedly due to the fact that, instead of making their investments through farm mortgage bankers, who relieve them of defaulting loans, they make their loans direct, and handle their own defaults.

savings of a little over $90,000,000. So that, you see, they have quite a large proportion of the savings of those banks invested in farm loans. They have invested them through various agencies, largely investment companies organized in the various States where they have operated. I think they have now investments in farm loans in about 19 or 20 States. I have examined 16 of those States in the past four years, or rather, examined the portions of those States where they operate.

"When I was appointed Bank Commissioner there was no law requiring any supervision or any examination of these investments, except what would be accomplished by examining the securities in the bank. Since that time a law has been passed which requires the Bank Commissioner to make such an examination of such investments as will satisfy the banker.

"Acting under the provisions of that law, I have visited these localities and examined the investment companies and agencies authorized to sell those securities in Vermont; have gone over their territory, investigated land values and conditions, both in the towns and in the rural communities, and the character of the people. I have also made such additional inquiry as was necessary to satisfy me of the judgment and ability of the men who were making examinations of the property upon which these loans were made. All this has been done with the idea of satisfying the people of Vermont that their savings were safely invested in such loans.

"During the time that I have been Commissioner, and, I think extending back to two years before—ten years—the only loss which the banks have made on over forty million dollars of farm loans was in one case, through the dishonesty of an agent in not getting his title to a farm; and I think to-day there is not a bank in the State which owns a Western farm.

"I have been very much impressed with farm loans, and naturally I feel that, with the record which Vermont banks have made and the character of those loans, as I found them in the banks and by examination in the field, there is no better investment for our savings than a farm loan, properly placed and properly looked after.

"The first requisite which the banks require, and which I insist

upon and urge upon the bank officers, is in seeing to it that they select reliable, competent, experienced men to place those loans, because I feel sure that the whole success of the farm loan business lies in the placing, in the first instance, of the loan, and then, in the banks regularly, through their directors, visiting and examining the security. I make no attempt to examine any particular securities, because, of course, I would not have time to do it. But the banks do that, and have for a great many years."

## SPECIAL DATA ON CANADIAN MORTGAGE LOAN COMPANIES

The Canadian loan companies are all "debenture" companies, with Dominion Charters, imposing rigid restrictions on their volume of guarantees and character of their investments.

At the end of 1913 there were 74 companies in Canada with $478,000,000 of assets, of which about three-quarters are estimated to be farm mortgages.

These companies have been, many of them, in operation for forty years with absolutely no default to any investor of either principal or interest.

The debentures of these companies are legal for trust funds and banks and are rated as gilt-edged, yielding only 4½% in most cases, large sums being secured from Great Britain on these debentures.

## THE EXPERIENCE OF COLLEGES AND UNIVERSITIES IN FARM MORTGAGE INVESTMENTS

The result of a Questionnaire addressed to practically all the educational institutions in the United States.

Sixty-eight institutions replied. Of these,

Forty-two reported no experience with farm mortgages;

Two no recent experience—former experience unsatisfactory;

Twenty-four both present and past experience satisfactory.

Eliminating the 44 institutions with no present investments in farm mortgages, the experience of the other 24 institutions may be outlined as follows: The names are omitted, as some asked to have the information kept in confidence.

| AMOUNT INVESTED | YEARS EXPERIENCE | RESULTS | ATTITUDE |
|---|---|---|---|
| $7,000.00 | Not stated | No losses | Favorable |
| 10,000.00 | 10 years | "Very satisfactory" | "No better form of security" |
| 200,000.00 | 26 years | "Altogether satisfactory" | Favorable |
| 500,000.00 | Over 25 years | No losses | "Very satisfactory" |
| 336,000.00 | 18 years | No loss | Among their best investments |
| 202,000.00 | 25 years | No loss | Invests most of its funds that way |
| Small | Not stated | "Very satisfactory" | Favorable |
| $350,000.00 | Many years | "Very satisfactory" | Favorable |
| 300,000.00 | Many years | "Very satisfactory" | "Make all investments in this form of security" |
| 75% of total | 30 years | "Very satisfactory" | Favorable |
| $6,000.00 | 5 years | "No difficulties with them" | Prefer city mortgages |
| 150,000.00 | 10 years | "Have had no trouble" | Favorable |
| 103,000.00 | "Quite a number of years" | "No difficulty in recent years" | Favorable |
| 600,000.00 | 10 years | "No difficulties" | Favorable |
| 60% of total | 20 years | "Most satisfactory" | Favorable |
| "Practically all funds" | "Many years" | "Never lost a dollar" | Favorable |
| $273,000.00 | "Since its foundation" | "No losses" | "Thinks highly of them—plans to increase" |
| Not stated | Over forty years | No losses for 30 years | "Put all available funds ioto farm mortgages" |
| $750,000.00 | During entire life of college | No losses | "Most satisfactory investment" |
| 10,000.00 | 3 years | No loss | O. K. if bought from good houses |
| 425,000.00 | 30 years | Very good | Invest all funds—consider it best possible investment |
| "All funds—Have iovested $1,000,000.00" | 40 years | No losses | "Do not contemplate any other form of investment" |
| 44,000.00 | 5 years | No losses reported | Prefer bonds |
| 75% of all funds | 15 years | "Never lost a dollar nor took a farm" | "No investment safer" |

SUMMARY

| | |
|---|---|
| Institutions with no experience | 42 |
| Institutions with former unfavorable experience | 2 |
| Institutions with past and present experience favorable | 24 |
| TOTAL INSTITUTIONS | 68 |

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